

ASSEMBLY INTERIM COMMITTEE ON
JUDICIARY

Subcommittee on Tidelands

Hearing Held

Thursday, January 23, 1958, commencing at
10:00 o'clock A.M.

in

Room 115, State Building, Los Angeles, Calif.

COMMITTEE MEMBERS PRESENT:

Bruce F. Allen, Chairman

Phillip Burton

Richard T. Hanna

Allen Miller

John A. O'Connell

Bruce Sumner

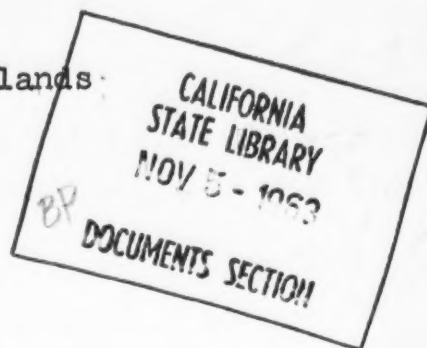
Howard J. Thelin

Caspar W. Weinberger

S. C. Masterson

Louis Francis

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LOS ANGELES, CALIFORNIA, THURSDAY, JANUARY 23, 1958, 10:00 AM

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THE CHAIRMAN: The meeting will come to order.

This is a hearing of the Assembly Judiciary Subcommittee on Tidelands, the Assembly Interim Committee on Judiciary, of which this Subcommittee was created under House Resolution Number 224, which I will not read but we will put in the record. The Subcommittee on Tidelands was created by letter from the Chairman dated September 19, 1957, which I will read.

"The Subcommittee on Tidelands is hereby appointed to ascertain, study and analyze all facts relating to or affecting the tide and submerged lands of this State and all matters, agreements, leases or grants in any way bearing upon or related thereto, including but not limited to the operation, effect, administration and enforcement, and needed revision of any and all laws in any way bearing upon or relating to the subject of H.R. Number 224."

The purpose of the hearing this morning, which is one of a series of hearings held by this Subcommittee relating to various aspects of tidelands is to inquire into leasing practices followed by the City of Los Angeles relating to tidelands and other lands as regards production of oil.

The Committee is interested in this subject

matter, first of all because of the direct relation of production of oil on State operated tidelands. Because of that we are interested in conducting a broad inquiry into leasing practices followed by public agencies so that we can be informed in adopting leasing practices for the State of California.

Secondly, because the tidelands held by the City of Los Angeles are held in a trust under which the State of California is the beneficiary, and therefore the Legislature has an interest in seeing how the trust is administered.

Furthermore, we are interested in finding out, particularly with regard to the leases coming under scrutiny this morning because of various stories that have been circulated, whether or not there has been influence peddling taking place in the granting of these leases.

I would like to introduce at this time the members of the Subcommittee. Assemblyman Thelin on the left from Glendale, Assemblyman Masterson on my right from Richmond, Assemblyman Francis on my right from San Mateo. My own name is Bruce Allen, Assemblyman from Los Gatos.

This group will constitute the Subcommittee pending the arrival of additional Assemblymen, who I understand are on the way.

Is Mr. Arditto present?

MR. ARDITTO: Yes.

THE CHAIRMAN: Will you come forward, sir.

JAMES J. ARDITTO,
called as a witness, having been first duly sworn, was
examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN: What is your full name, sir?

A James J. Arditto, A-r-d-i-t-t-o.

Q And you are an attorney at law duly admitted
to practice in the State of California, is that correct?

A Yes, I am.

Q And the name of your law firm is what?

A Waters, Arditto and Waters.

Q And the address?

A 727 West 7th Street, Los Angeles.

Q Approximately how long have you been practicing
law in Los Angeles?

A Since January 1, 1948.

Q Are you a member of any City boards or commissions?

A No, I am not.

Q Are you an attorney for the City Housing Authori-
ty?

A Yes, but that is a State agency.

Q How long have you been an attorney for the City Housing Authority?

A I believe October 1, 1954.

Could we get rid of these lights for a moment. I mean, it bothers me. I don't mind them taking pictures, but those lights are awfully strong.

I don't mind you doing it once in a while, but actually my eyes are not too good, anyway.

Q In the course of your law practice, have you represented any of the Hughes Companies?

A What has that got to do with this?

Q Just answer the question.

A I think at this moment I will refuse to answer the question on the grounds that it is not encompassed in your Resolution.

Q I will call your attention to the fact that the letter creating the Subcommittee covers all the matters set forth in the Resolution of the Assembly creating the Interim Committee on the Judiciary.

A I read your Resolution.

Q Mr. Arditto, do you have an interest in a corporation known as the Los Angeles Harbor Oil Development Company?

A Yes, I do.

Q. What is that?

A I am Vice President, Secretary of the corporation

and a Director and I am a prospective shareholder.

Q Do you own any stock in that corporation at the present time?

A I do not.

Q Has any stock been issued in this corporation at the present time?

A There has not.

Q Do you have any understanding as to what your stock interest will be when and if the stock is issued?

A Oh, very definitely.

Q What is that?

A May I look at the records I have here?

Q Yes, sir.

A Incidentally, if I may, I have a letter from Mr. Dietrich's doctor which explains his nonpresence here today. May I hand it up to you.

Q Thank you.

A I might say that I have also produced a number of documents here with me, which were subpoenaed by the investigators.

THE CHAIRMAN: I would like to introduce at this time Assemblyman Phillip Burton from San Francisco.

BY THE CHAIRMAN:

Q Did you find it, Mr. Arditto?

A Yes, I have. I am referring to the Minutes of a meeting of the Board of Directors of the Los Angeles

Harbor Oil Development Company, and with your permission I would like to call it the LAHODCO throughout here. It was held on July 2nd, 1957, where among other things, authority was issued to apply for a permit to the Corporation Commission for a permit to issue stock and provides as follows, as far as I am concerned. To issue 1,498 shares of stock to me.

Q Who are the other prospective stockholders?

A Would you like me to list them all?

Q Would you read them?

A Claude E. Young, 32 shares; Ronald H. Prenner, 32 shares; Melvin L. Pierovich, 63 shares; J. R. Pemberton, 250 shares; Carlisle Linton, 125 shares; Noah Dietrich 500 shares, and the amount that I gave you for myself.

Q Those are the only stockholders, is that right?

A That is correct.

A permit has been issued to issue that stock. It would have expired, I believe, on the 31st of this month. However, we applied for an extension of that permit. It was granted just the other day and now expires, I believe, a year from the 31st of this month.

Q What are the total number of shares covered?

A Well, you just have to add that up. It looks like about 2300, roughly.

Q At what price were these shares to be?

A \$100 a share.

Q For cash?

A That is correct.

Q When were the articles of incorporation of this corporation filed with the Secretary of State?

A According to Mr. Jordan's certificate, on the 12th day of April, 1956.

Q Has this corporation obtained a lease of tidelands from the City of Los Angeles?

A Well, we think we have.

Q And am I correct in stating that it is the area marked on that map as beyond the breakwater, roughly?

A Yes. That is a rough description of it, yes.

Q And the lease was --

A Is that extension on my left, is that supposed to represent Gaffey Street; is that the prolongation of Gaffey Street? Does anybody know that?

Q It comes out from Point Fermin.

A I assume for our purposes, whatever the City owns.

Q The area outside the breakwater?

A Except the area to the west of the prolongation of Gaffey Street. I understand there is about -- God knows -- probably 5000 acres beyond the breakwater.

Q And the area that is covered by this lease that you just mentioned is about how many acres?

A Mr. Allen, your guess is as good as mine. I

wouldn't attempt to guess at it. We have whatever the City acquired from the United States Government.

Q I have seen the figure 6400 acres. Would that be approximately correct?

A I have seen lots of figures mentioned, Mr. Allen. I think we have a legal question that can only be determined eventually by the State Supreme Court, maybe the United States Supreme Court.

Q Now, this lease, was that approved by the City Council?

A Yes. On three different occasions. On December 18, 1956, on January -- let's see, on December 27, 1957 -- did I say '57 the first time -- December 18, 1957. Wait a minute, I am getting mixed up now.

December 18, 1956, December 27, 1956, and January 14, 1957, by the unanimous 14 to nothing vote published. In my opinion it became final about February 24th, 1957.

Q Now, prior to that approval of that lease and the dates you have mentioned, did you acquire a lease or an interest in a lease covering approximately five acres in the Harbor area of Los Angeles?

A I did.

Q Will you describe that for us?

A The best description I can give you, it is right across from the Matson Terminal, I believe in what they call the East Basin. It is a five-acre drilling site, I guess

you would call it, and bottomed on 27 acres, some people calling it a five-acre lease, other people call it a 27-acre lease. Frankly, I think it is a 27-acre lease.

Q Do you remember the date on which that lease was approved by the Board of Harbor Commissioners?

A If I may refer to another note. November 7, 1956.

Q What is your interest in that lease?

A 12 1/2% carried working interest.

Q Is that held by yourself or are there other people associated with you in the 12 1/2%?

A That is my own interest.

Q That is your own?

A That is correct.

Q What are the other people who are joined in that lease?

A My partner, Frank Waters, also has a 12 1/2% carried working interest, and G. E. Kadane and Sons own the remaining 75% of the working interest.

Q What do you mean by "carried working interest"?

A Well, that in simple language means that the other party to the operating agreement puts up the money to drill the wells, recovers his money first, including the share of the carried interest, and thereafterwards and only thereafterwards does the carried working interest share in the proceeds.

You may be interested, as this thing has developed, it is my considered judgment that maybe in nine years I may get \$100 a month out of this thing.

Q Now, has any drilling been undertaken on that lease you just described?

A Yes. There have been three wells drilled.

Q Have they produced oil yet?

A There is a total production of 85 barrels a day from all three wells. The City gets 30% off the top. It leaves whatever it leaves, roughly 62 barrels a day to the working interest.

Q Now, have you personally advanced any money for the drilling of these wells?

A No, I have not. I told you I had a carried working interest.

Q Your agreement, as I understand it, doesn't call for you to advance for the drilling?

A No carried working agreement calls for money as part of the carried interest.

Q Did you bring a copy of your agreement with Kadane & Sons with you?

A Yes.

Q Would you produce it, please?

A I wasn't able to bring an executed copy. I will swear under oath that this is a true and correct copy of the executed copy. I will make the executed copy available

to a member of the Subcommittee or your investigators.

Q That is satisfactory.

A I will stipulate this is a true and correct copy of it.

Q Let us mark this as the next exhibit.

(Document marked as exhibit.)

BY MR. ALLEN: (Q) Mr. Arditto, you received a subpoena to produce various documents at this hearing. Would you produce them at this time and identify them for the record so that we can see that they are returned to you.

A Yes. Does somebody have a copy of my subpoena.

Q Yes.

A Do you have the other one, Mr. Cook?

I have produced, let's see, a certain agreement entered into between Kadane & Sons regarding the proposed leasing of the inner harbor or West Basin.

For the record, Mr. Cook, you have not produced for me, as I requested, a subpoena on what I call the 27-acre lease. Before I leave today, may I have that?

MR. COOK: You may have that.

THE WITNESS: I want it for my records. I don't want my business associates to say I have produced a document here without being under subpoena.

The next one you have asked for is the agreement entered into between Kadane & Sons, myself, Mr. Waters and Mr. Dietrich regarding the proposed leasing of the inner Harbor

or West Basin.

Now, in response to that subpoena I submit two documents to you, one is an executed copy. I had an extra copy, and for the record I would like to describe it. It is in the form of a letter, dated November 6, 1956. It is addressed to G. E. Kadane & Sons, 917 Hamilton Building, Wichita Falls, Texas. It is a six-page document containing the signatures of Mr. Waters, myself and Mr. Dietrich on the one hand and the signatures of Ed -- and these are abbreviations -- Jack and Mike Kadane on the other hand.

Now, that is just part of the agreement. In order that the whole written understanding can be a part of this record, it has to be read with a document which I am also handing to you dated November 7, 1956. It is addressed to the Standard Oil Company of California, 605 West Olympic Boulevard, Los Angeles 15, California, attention Mr. Lawrence E. Scott. It is entitled "Re: Standard Oil Company of California, G. E. Kadane & Sons - Arditto Group".

It is a five-page document. It is signed again by Ed, Mike and Jack Kadane, signed by myself, Frank Waters, my law partner, and Mr. Dietrich, and signed for the Standard Oil Company of California by somebody, the contract agent and somebody, his assistant secretary, with their seal.

Now, this document is a photostat of an original document. Again I offer, for the benefit of the Committee, the

original if you have you questions about this being true and correct. I hand you these as one exhibit, because this is the written agreement between the parties relating to that West Basin.

THE CHAIRMAN: Thank you. We will mark that as the next exhibit, the two documents together.

(Documents, letter Nov. 6, 1956, to G. E. Kadane & Sons; agreement Nov. 7, 1956 - Standard Oil Company, marked as exhibits)

A Now, you have also subpoenaed the share register of LAHODCO, and I previously testified there are no shares issued. Obviously, we have no share register.

You have also subpoenaed the Minute Book of LAHODCO, and I have that here, but with your permission I would like to keep my original Minute Book, as I am the secretary of the corporation. I have had my secretary thermofax all the Minutes. I am perfectly willing to leave my original Minute Book here --

Q The thermofax copy is satisfactory.

A With the privilege on the part of you or your investigators to check the thermofax against the original, if you care. I will stipulate that those are true and correct thermofax copies of all the Minutes of this corporation.

Q Thank you, Mr. Arditto. We will mark the copies of the Minutes as the next exhibit.

(Minutes marked as Exhibit.)

A Now, the next thing you have asked for are the cash receipts and disbursement register of LAHODCO. There is none, and in that behalf, I might state to the Committee that my law firm has advanced -- I don't want to be held exactly to this, but I would say approximately \$5000 to this corporation in connection with the lawsuit, of which I am sure this Committee is fully aware of. It has been tried, submitted, briefed and is ready for decision as of this date.

Q We are not going to try the lawsuit here, Mr. Arditto.

A I am glad to hear that.

Q Now, you have referred to two parcels of land on which you or this corporation has obtained a lease.

A I will refer to two parcels of land, one of which a corporation has a lease which is now the subject of a court decision, and another lease in which myself and others are interested.

Q All right. Now, if you will refer to the area known as the West Basin or the Inner Harbor, have you applied to the Board of Harbor Commissioners for a lease, together with others, have you applied for a lease on that property?

A The West Basin?

Q Yes.

A Yes. I handed you an exhibit a while ago which fully covered that.

Q Right. Would you describe your interest in that application for us?

A Yes. One, it is none, in the sense that we have no lease. I assume your question is, if that lease had been granted, what would I personally have received out of it. Is that your question, Mr. Chairman?

Q I am sorry, I was talking to Mr. Cook.

You have given us the letter dated November 6, addressed to G. E. Kadane & Sons, and the letter dated November 7th to Standard Oil Company of California.

A Right.

Q Now, those referred to the area described as the Inner Harbor, which is marked on that map there.

A Do you mind turning the lights off, I can't see that. In fact, I can't see that far with them off.

Now, may I have your question, please.

Q Have you joined with Standard Oil of California and others in applying for the lease and the application as referred to in these two letters we just described?

A That is correct.

Q And that lease has not been issued yet, is that right?

A Not only has it not been issued, but I am sure that everybody will agree that it never will be issued.

Q Now, that lease was approved by the Harbor Commission, is that right?

A Well, I don't want to quibble with words here. What happened was this: On January 9, 1957, the Board of Harbor Commissioners having been advised by the City Attorney's Office, I believe, that because Mr. Tanner, a member of the Board of Harbor Commissioners, had contracts for gasoline or something with Standard Oil Company of California, that the whole Board was disqualified from acting on this application, acknowledged that fact, but made a recommendation to the Board of Referred Powers of the City Council, or the Board of Referred Powers of the City of Los Angeles, that this lease be granted to Standard Oil Company of California, to G. E. Kadane & Sons and to the three individuals, in accordance with their application; that is correct.

Q And the problem now rests with the Board of Referred Powers, is that right?

A No, that is not correct. I believe subsequent thereto, Mayor Poulson asked the Board of Harbor Commissioners to, in effect, rescind the recommendation, which they did. As far as I am concerned, and I am sure everybody else is, the action is in limbo by this time, I assume.

Q The letters relating to this lease or application for a lease which you have produced for us state that Standard shall be the owner of 80% of the interest under the lease, the remaining 20% shall be owned 12% by Kadane and

and 8% by the Arditto group.

A No, that is not correct. It is 80, 12 and 8. The 8 is divided three ways. In answer to your question, mine was roughly $2 \frac{2}{3}\%$ carried working interest.

Q Who else constitutes the Arditto group?

A Mr. Frank J. Waters and Noah Dietrich. Each of us under that agreement would have had a $2 \frac{2}{3}\%$, or $\frac{1}{3}$ of 8, carried working interest. Standard would have had 80% and Kadane would have had 12.

Q And that is Frank Waters, your law partner?

A That is correct.

Q And Noah Dietrich, is that right?

A That is correct.

Q What business is Mr. Dietrich in?

A Oh, I call him one of the Nation's leading business executives, without reservation, Mr. Allen.

Q What business is he in?

A Well, he formerly was associated with the Hughes interests, I believe.

Q Do you know in what capacity?

A I believe Executive Vice President and then later as a consultant.

Q Of which company?

A Well, now you have me. Outside of the Hughes Tool Company, I don't know his exact relationship.

Q I understand that he is no longer associated with

the Hughes Company?

A I prefer not to talk about that. I don't see where it has any bearing on this. He was at the time that these leases were applied for.

Q November 7, 1956, for example on the date of this one of the documents, Mr. Dietrich was associated?

A That is correct. I think as far as all during the year 1956, and I think that will cover everything, all these transactions.

Q Now, was this 8% interest of the Arditto group, which you have just referred to, a carried interest?

A It was a carried working interest, 2 2/3% for me.

Q And by "carried interest", in regard to this agreement, you give it the same meaning that you previously described this morning?

A That is correct.

Q It didn't require you to advance any funds?

A I think I had an option under that agreement that you have before you, but I didn't have to unless I exercised the option.

Q You weren't required to advance any funds?

A That is correct. That is the same as any other carried working interest, which you have thousands and thousands around the country.

Q Where were the funds to come from under this for

the drilling operation?

A I would say Standard Oil Company of California and Kadane & Sons.

Q And that would be true if either one of them withdrew after they got the lease, is that right?

A No. All parties to this agreement had the right to withdraw at any time, but if they withdrew they had to assign their interest to people who wanted to go on. In other words, under this agreement I could have ended up as the sole owner if Standard and G. E. Kadane and everybody else decided to withdraw.

Q But it would be correct to say that if Kadane & Sons later withdrew from the agreement, that Standard would be carrying your interest?

A I don't think there is any question about it. Standard may disagree with me, and we would have ended up in court.

Q And vice versa, if Standard withdrew, Kadane would carry your interest?

A That is correct.

Q Now, did you join with Edwin W. Pauley in making application for a lease in an area known as the Outer Harbor, which is marked on the same map up there?

A Yes, I did.

Q Would you tell us about when the application for that lease was made?

A If I may, Mr. Allen, for the record we might -- I don't think we ever completely identified when the West Basin application was made. Would you like to have it?

Q All right, go ahead.

A Now, this is the Standard Oil, Kadane and our agreement. We filed on May 6, 1956, by ourselves, that is, Kadane & Sons and Frank, Noah and myself. Standard filed on July 6, 1956. And then we, shall we say, joined hands on, I believe, November 23rd, 1956.

In other words, contrary to the understanding of some people, shall we say, the inference has been given from time to time that Standard filed first. That is the exact opposite of the truth. We filed first, Standard then filed. Standard came to us and asked to join with us, and then we all three joined.

Now, coming to the Outer Harbor, on December 29th, 1955, through Pauley an inquiry was made of the Board of Harbor Commissioners on the area now called the Outer Harbor on the map there.

On July 17, 1956, Pauley amended that application. our application to make it more specific. Ten days later, on July 27th, 1956, Standard Oil Company of California applied on the so-called Outer Harbor and again came to us, and as a result thereof, on September 18, 1956, an amended application was filed including Pauley and the group.

Q Under the latest application you have referred to,

what was the interest of your group?

A Exactly the same as in the other one, an 8% carried working interest, of which I had $1/3$, which would give me 2 and $2/3\%$.

Q And Mr. Frank Waters had $1/3$?

A He had $1/3$ of 8, I have $1/3$ of 8.

Q And did Mr. Dietrich?

A Mr. Dietrich had $1/3$ of 8, and we also had an option to acquire another 2%, if we could come to an agreement in regard to the price.

I might state that before Standard came into the picture we had a 12% with an option to acquire an additional 5. As a result of Standard coming into the picture, we dropped down to 8 and 2, and I might also state in regard to the West Basin, we originally had 25 and as a result of Standard coming into the picture, we dropped down to an 8 without an option.

Q Now, this 8% interest in the outer Harbor, joined with Standard and Pauley, again that was a carried working interest?

A Every one of these leases that we either acquired or attempted to acquire, we had a carried working interest, with the exception of the LAHODCO lease where LAHODCO, of course, if successful would have the direct working interest.

Q Now, we have so far referred to your leases or

applications for leases. The area beyond the breakwater, the Los Angeles Harbor Oil Development Company -- what do you call it?

A LAHODCO. An abbreviation for Los Angeles Harbor Oil Development Company. Just take all the initials.

Q On the outer Harbor you reached the point where you joined with Standard and Pauley in filing an application and nothing further?

A No action was even taken by any Governmental Agency on that one.

Q That is right. The five-acre parcel bottomed on the 27 acres where the lease was actually granted and was not in litigation were you and Mr. Waters together to have a 25% interest joined with Kadane?

A No. We each have a 12 1/2%, joined with Kadane.

Q I stand corrected. It isn't a joint 25, it is a separate 12 and 1/2. And then the fourth area, the Inner Harbor, also called the West Basin where you joined with Kadane & Sons and Standard. Your group has an 8% carried working interest in an application, but no lease has been granted by the City. That sums it up?

A I think that is a fair, accurate summation of it.

Q Are there any other oil leases or applications with the City in which you have an interest?

A None.

Q You don't have any interest in any other leases?

A That is correct.

Q From the City of Los Angeles?

A That is correct.

Q Do you have any interest in any other oil leases at all?

A Well, I am trying to think here. Mr. Linton, one of our associates, has been running all over the country for three years buying interests in various leases. I had some and gave them up. I don't think I do at the present time.

Q How about the City Housing Authority, has it made any leases or have you applied for any leases from the City Housing Authority, regarding oil production?

A I have never applied for any. I have never had any interest in any application made by anybody with the City Housing Authority. As far as I am concerned, I am personally not aware of any lease. We are in the process, and when I say "we" the Housing Authority, is meeting Tuesday of this week in response to a request, which the Public Housing Administrator from Washington informed Mr. Slusser that pursuant to his request we would, as soon as possible, go out to bid on, I believe Grand Village. And we also referred to a request, I think it is Western Gulf Oil Company, inquired about another project, which escapes me for a moment. We referred them to the PHA for

consideration.

Q You have no interest in it?

A None whatsoever. Never had any.

Q Now, did you have an understanding with Ed Pauley at one time that the two of you were going to -- or you with your group, some way were going to join together in applying for the lease at the El Rancho Golf Course?

A That is correct.

Q What was that understanding?

A Just that we would apply jointly for a lease on the -- I call it the Rancho Golf Course -- under the same arrangement that we had for the Harbor Area. However, that agreement was terminated prior to the time Mr. Pauley, I believe, made a bid, some time in '57. We have no further interest in that.

Q Referring to the Rancho Golf Course, the understanding you had with Mr. Pauley, which was this same group that you mentioned, Mr. Waters, Mr. Dietrich and yourself involved.

A That is correct.

Q What was the interest of that group?

A Well, at that time it would have been 12 and 5, as a carried 12 and an option to buy 5 additional.

Q 12% carried interest with an option to buy 5% additional?

A That is correct.

Q Would the 5% additional also be carried?

A No. That would be a matter of mutual free bargaining between the parties, and if agreed on a price, we then could acquire it.

Q When did you first start your discussions leading up to these lease applications?

A About 1953. Right after the Geis Report came out. I believe it was in about February of '53. I don't want to be held to that exactly.

Q The Geis Report is a geologist's report on the oil potential in the Harbor Area, is that right?

A Or the lack of it.

Q And subsequent to the Geis Report -- I assume that you examined that report?

A Yes, I personally read that report.

Q You conducted these discussions with the people you have mentioned leading up to these --

A Oh, no, no, no. May I go into that and possibly bring you up to the time that we first talked to any of the people we have been mentioning here this morning?

Q Please.

A I had mentioned Mr. Linton back in, roughly, '53. Mr. Linton came to Mr. Waters and myself and asked us if we would be interested in acquiring an interest in any oil leases any place. At that time I believe Mr. Linton was primarily interested in oil leases in Texas.

Mr. Waters and myself were in an income tax bracket where oil leases appealed to us. We felt maybe we could keep an extra cent or two out of a dollar that we might earn. We told him that we were and we more or less financed him from that time on. Mr. Linton sought, practically continuously from that time practically to the present day, leases for us.

We finally got the Geis Report. I know I read it, we had Mr. Linton read it, we asked him his opinion. He stated that it had possibilities. However, it was one of those things, as I read it, if the fault is this way, you are all right, and if the fault is that way, you aren't.

We asked Mr. Linton to try to interest anybody to come in with us and help us develop that area. Mr. Linton contacted a number of corporations in Texas and elsewhere. We never found anybody who was particularly interested in it until we found, through Mr. Dietrich, contacted Mr. Pauley, which would be, my best guess, bearing in mind that December 29, 1955, date, some time roughly six months prior to that time. We then started to have discussions with Mr. Pauley as to whether he would be interested in developing this potential oil situation which had lain dormant for 35 to 50 years and nobody seemed to be interested in it.

The Pauley agreement developed and progressed as you have developed it in the record here today.

Q I notice that these lease applications, the

letters seem --

A Do you mind if we have a recess? I would like a glass of water.

THE CHAIRMAN: All right, let us take a five-minute recess.

(SHORT RECESS TAKEN.)

THE CHAIRMAN: I would like to introduce at this time Assemblyman Allen Miller from San Fernando sitting over here on the right, Assemblyman Caspar Weinberger from San Francisco, and Assemblyman Bruce Sumner from Santa Ana, all members of the Committee.

BY CHAIRMAN ALLEN:

Q We were talking about the dates on which these activities developed, and I notice in going through a number of the documents and lease applications, that these lease applications all seem to have been filed in a period starting around May of 1956. I don't mean that they all were, but a great many of them were. Could you tell us any reason for that?

A Well, first let us get the record straight. The first one was filed on December 29, 1955.

Q Which one was that?

A That was the Pauley -- what I call the Pauley Outer Harbor Proposal.

Q Go ahead.

A The second one was what I call the Matson Terminal,

five-acre proposal, which I believe was on April 25th, if I am not mistaken, 1956.

The third one was on May 6, 1956, which was the West Basin, the Standard Oil lease.

Q That was your application, your group which filed May 6, 1956?

A That is correct. Then LAHODCO applied, I believe, on August 31st, 1956. Standard applied on the West Basin roughly two months after we did, that would be July 6, 1956, and they filed on the Outer Harbor seven months after we did.

Q Now, the date I believe you mentioned was in 1953.

A February, 1953.

Q Then we come up to these applications starting with the --

A We were completely unsuccessful, Mr. Allen, for almost three years to get anybody who had sufficient interest to join with us in trying to develop oil down in Los Angeles Harbor, in spite of the tremendous newspaper publicity, the City Council Resolutions, and I would say worldwide publicity in connection with it. But all of a sudden there is a tremendous amount of interest.

Q You were trying to get people interested during that period?

A That is correct.

Q Will you tell us some of the people you talked to

about that?

A I explained to you that Mr. Linton did. It is my understanding he talked to Monterey people; it is my understanding he talked to Humboldt. I know we talked to Mr. Dietrich in 1953 and he brought his personal geologist, David Thayer, out here who made quite a study of this thing back in, I would say, the latter part of '53, the first part of '54, and he recommended to Mr. Dietrich that there were other fields of interest that were far more potential than this area.

I might also say that Mr. Linton had a number of conversations with Mr. Pemberton, J. R. Pemberton. You might notice he is an officer, a potential stockholder of LAHODCO. I understand he has a reputation of being one of the world's leading geologists, and Mr. Pemberton has his serious doubts as to the oil potential in this Harbor, around this Harbor.

Q He is interested in buying stock in this corporation, is that correct?

A That is correct. He recognizes possibilities, Mr. Allen, but anybody that thinks there is no question about oil being developed down here, I think is acting on an assumption that is not founded in fact or any known geology, unless Standard Oil has something I don't know or Mr. Pauley has something I don't know about.

Q Well, Mr. Arditto, I have here a letter from the Los Angeles City Clerk dated April 5, 1956, addressed to the

City Administrative Offices, City Attorney and Harbor Commission, that contains the statement, "Eminent Geologists and Petroleum Engineers have stated that oil and gas reservoirs which may rightfully belong to the City of Los Angeles through its ownership of the Harbor properties may be many times as rich and revenue producing as the Long Beach Harbor Field."

Have you ever seen that letter?

A I don't believe I have. Who wrote that, the City Clerk?

Q Right. It was a motion of the City Council.

A Well, I haven't seen this, Mr. Allen, but I have heard and I have talked with a number of other "eminent geologists and petroleum engineers" who have told me that contrary to the City Clerk's statement here, that there is a serious question as to whether there is any oil in the Los Angeles Harbor.

Now, don't misunderstand me. I am sure that Standard Oil of California and Pauley and G. E. Kadane & Sons, who I am sure we can all agree know a little bit about the oil industry, would not have applied for these leases unless they felt there are some possibilities down here. But all I am saying, Mr. Allen, this is not as you would say in your State Lands Commission, a proven oil field.

Q Agreed.

We will mark the letter just referred to as the next

exhibit.

(Letter 4/5/56 from L. A. City Clerk marked as exhibit.)

BY MR. ALLEN:

Q Now, you referred to your interest in three of these applications and also in the Rancho Golf Course as a carried working interest.

A I wish you wouldn't call any of them interests. I think the record shows that with the exception of a little five-acre lease that is producing 85 gross barrels a day, and it will take me 9 years to get \$100 a month, I really don't have any interest.

Q I think the term "carried working interest" is yours in describing your association in these applications.

A I am not quibbling with the use of the word "Carried working interest". I am quarreling because I am getting sick and tired of people talking about my oil interests. My oil interest as of this date is a total, personal cost of myself and Mr. Waters of \$5000 period out of our own pocket.

Q Now, let us go back to the Rancho Golf Course where you described your understand with Ed Pauley, in which he was going to apply for a lease on the Rancho Golf Course and you and your group were to have a 12% carried working interest.

A With an option to buy five.

Q With an option to buy 5% not carried.

A That is correct. Reduced later on to 8 and 2 after Standard Oil of California came into the picture, without our request.

Q I don't understand why Ed Pauley or Standard Oil would take somebody in for a percentage who didn't put any part of the costs and take part of the risks. Would you explain that for us?

A Well, your lack of understanding or why he would offer me a carried working interest?

Q Yes, why did they?

A Well, I think it is very simple, Mr. Allen. As I explained to you, we had tried to develop an interest in this area for three years. We went to Mr. Pauley and tried to interest him. He was aware of the fact that we were interested, that we had done considerable research study in regard to the matter. He knew that we, as lawyers, could assist him in the filing of the application, following the application through, getting a permit to do seismographic work down in the Harbor, which Pauley and Standard both eventually obtained, and when you stop to analyze it, Mr. Allen, a 2 and 2/3% carried working interest, which entailed upon Mr. Pauley probably a total fixed expense at most, in my opinion, of \$5000, was far cheaper for Mr. Pauley and Standard Oil and Mr. Kadane than paying us a legal fee for the same thing.

Q Well, were you performing legal services to get this?

A That is not correct. And the record -- we were very positive on that, Mr. Allen. We were quite conscious of the tax picture. We wanted to be a permittee. We wanted to be an owner of an economic interest in oil and gas. We refused to accept a fee. It was offered to us by both Standard Oil of California and Pauley and Kadane. We told them that we wanted an economic interest in the oil and gas in place, taking our chances with them, if any oil and gas would be produced, that we would eventually take advantage of the 27% depletion.

Q Have you ever represented Pauley, Standard Oil or Kadane as an attorney?

A I have not. I have represented Standard, Pauley and ourselves as an attorney. I have represented Standard Oil, Kadane and ourselves as an attorney, but I have never represented them alone as such.

In other words, the services that I rendered first pursuant to my agreement by which we acquired this carried working interest entailed, among other things, legal services for the benefit of the common group.

Q Didn't Standard Oil have its own attorneys that prepared and advised them on their lease applications and so forth?

A Mr. Allen, of course you know they have their own attorneys. They have got a building up in San Francisco with probably 75 or 100.

Q I don't understand why they would give you an 8% interest and put up the cost for it.

A Well, I can understand it, Mr. Allen. You will have to ask them, if you are confused. They certainly know much better than I do as to why they did it.

Q Well, would it be correct to state that you were given this percentage as a carried working interest because you had political influence you could use in obtaining these leases?

A Definitely not. Because we never represented to them or to anybody else at any time that we ever had a political influence and I question very much whether we have any.

Q Have you ever had any discussions with City Councilmen or members of the Harbor Commission with relation to getting approval of these lease applications in which you had an interest and in cutting out other oil companies who were interested?

A Definitely not. Of course, your question is a complex one. I did have discussions with members of the Board of Harbor Commissioners, the staff; members of the City Council, but not in regard to the subject matter that you tied your question up with.

I was speaking merely of furthering our own applications, not in any way discussing anybody else's applications.

Q Did you ever tell anyone from Standard Oil Company with regard to this application on the Inner Harbor that you did not want your interest or that of your group to be disclosed?

A That is absolutely false, it is not true. At all times I was aware of two things: one, that under the Charter of the City of Los Angeles, in order to be a permittee my name had to be disclosed, or anybody else's name had to be disclosed who was going to be a permittee, and without being an original permittee on these leases, it was my personal opinion, based on 20 years' specialization in the tax field that we could not acquire an economic interest in gas and oil in place.

Q When did you reach an understanding with Standard Oil Company about your interest in the Inner Harbor application?

A I would like to back up a little bit and give you a little history, if I may do that.

Q Go ahead.

A As I told you, we filed on May 6, 1956, that is Kadane & Sons and ourselves. Standard filed, I believe, on July 6, 1956, which was roughly two months later.

One day Mr. Frank Waters received a call from Asa Call, Asa V. Call, who in effect told Frank that I had been authorized by the Board of Directors of Standard Oil of California to retain you as an attorney for us in connection

with our application in the Los Angeles Harbor. Mr. Waters informed him that he could not represent Standard Oil because we had already filed on the one hand with Pauley in the Outer Harbor and already with Kadane & Sons on the Inner Harbor.

In other words, one having occurred seven months previously, the other having occurred two months previously. Now, at that point -- and incidentally, they offered us a fee which would be discussed, but of course, we didn't discuss the fee because we told them we couldn't represent them. At that point Mr. Call wanted to know if there was any reason why he or some representative that he would send out couldn't discuss the matter with Mr. Pauley on the one hand, or G. E. Kadane & Sons on the other hand to see if they couldn't join with our applications, and we told them that that was entirely up to Pauley on the one side and Kadane & Sons on the other side as to whether they were interested. But we had such a minor interest in these things that they had to speak to the principals. As far as we were personally concerned, we would welcome joining with Standard Oil of California in anything, but we did not have control of it. It had to go to these two places.

Thereafterwards these people got together. I never attended a joint meeting leading up to the -- if you want to call it the merger -- as between G. E. Kadane & Sons and Standard, but I did attend the initial meeting, I

believe, between Mr. Pauley and Mr. Larry Scott. I see he is in the room today. I attended that one meeting.

Thereafterwards, they met by themselves and as a result they got together on terms that are disclosed in the agreement that you have there on the West Basin. I have the agreement between Pauley, Standard and ourselves. I could have brought that down. It wasn't subpoenaed but I understand Mr. Hutchins will bring that down later on.

As a result of this getting together, our interests were reduced, as I told you, in the West Basin from 25 down to 8 and in the Outer Harbor from 12 down to 8. I might say I was anything but happy about it.

Q When did you first reach an oral understanding with Standard Oil and Kadane & Sons with regard to the application on the Inner Harbor?

A I think there is a document -- doesn't one of those documents refer to something about August 31, or is that the other one? I can't say exactly, Mr. Allen. It would have to be some time subsequent to July 6th on the one hand and July 27th on the other hand, and the time the amended applications were filed, or the agreement between the parties and the two-party agreement becoming a three-party agreement. Somewhere in, I would say, from the 15th day of July, in the next month or two, in that rough area.

Q 1956?

A '56, that is correct.

Q In the course of these verbal discussions with representatives of Standard and Kadane & Sons, it is your testimony you made no request to have your interest undisclosed?

A Just to the contrary. I wanted my interest disclosed, because as I told you, I had to be a permittee or I couldn't have an economic interest in gas and oil.

Furthermore, under the City Charter, to be a permittee my name had to be disclosed.

Q I will show you an office memorandum from Standard Oil Company dated August 6, 1956. It contains a statement reciting sections from the Los Angeles City Charter, Section 140, which you have just referred to, and ending with a statement: "In view of the foregoing Charter provisions, it appears that it would be extremely hazardous to apply for or accept a lease or permit without full disclosure of the identity of all interested parties."

A Yes.

Q I will ask you if you can tell us anything about that memorandum.

A I can't tell you a thing about the memorandum. This is the first time I have ever seen this. What is it? Mr. Savage, I have heard of him, I have never read it. Who is it signed by?

Q Scott.

A Maybe they had a private agreement between Standard and Kadane that I don't know about. Certainly, this didn't refer to me, because we never at any time asked that our name not be disclosed.

Q Did you have any discussions with representatives of Standard Oil in the summer of 1956 relating to disclosure of any of the parties to this application?

A No.

Q We will mark the last memorandum as the next exhibit.

(Office memo from Standard Oil 8/6/56 marked as exhibit.)

BY CHAIRMAN ALLEN:

Q I show you a letter dated October 31, 1956, addressed to Standard Oil Company of California, re Standard-Kadane-Arditto Group agreement, and ask you if that is your signature at the end?

A Well, that is a photostat of my signature. I certainly wrote a letter, an original letter of which this is a true and correct photostatic copy.

Q Thank you. This will be marked as the next exhibit.

(Letter 10/31/56 to Standard Oil re agreement marked as Exhibit.)

MR. ALLEN (Continuing): In this letter of October 31, 1956, the top of Page 3, the letter states:

"As repeatedly stated to both you and to Kadane,

it is our purpose to have our interest clearly stated in this tri-party agreement (all in accordance with your insistence) and further that if it be clearly disclosed that 'at all times' our interest is a 'carried' interest as long as either you or Kadane continue your interest in the permit in question."

Could you explain that statement to us?

A No. I think it explains itself. It verifies exactly what I have been telling you, that we insisted at all times that our names be disclosed; that we be disclosed as a permittee.

Q How does this letter happen to contain the statement: "All in accordance with your insistence"?

A I don't think there is any question both sides were insistent; there never was any time that either party didn't insist upon it.

Q You never had any discussions with Standard Oil about disclosure of interests under this application?

A Well, other than that we discussed the necessity of disclosing all. Certainly, we had those discussions.

For instance, I remember a discussion where -- if you will notice, some of these agreements refer to the "Arditto Group" or the "Kadane Group" and so forth. We have had discussions about whether you could just refer to them as the "Arditto Group" without disclosing who was in

the Arditto Group, or you could refer to them as the "Kadane Group", as to who was included in the Kadane Group. And we all agreed that under the City Charter that everybody who had an interest in these leases had to be disclosed, and there was never any question about it.

Q Now, getting back to this description of yours of a carried working interest, were you expected to perform any services in exchange for getting these percentages?

A Very definitely. And we put Carlyle Linton to work -- in fact, we prepared that first inquiry of December 29, 1955, by Pauley, and Mr. Linton personally delivered it down to the Harbor, and from that moment on we worked continuously on these things, drawing up documents, following the thing through, answering any questions of anybody who was interested. We were seeking a lease and we did whatever we could properly and legitimately do to further the acquisition of such a lease.

Q Did you have an understanding with Mr. Pauley that you were to perform some kind of services?

A There isn't any question we had an understanding with him. It was our job to see that the applications were filed and followed through up to the date of acquisition, if possible. And also -- now wait a minute -- and also to get a seismographic -- I guess you would call it -- seismographic permit from both the Board of Harbor Commissioners and the State Land Commission so they could do

seismographic work down there in the Harbor.

Q That is in relation to Mr. Pauley's application?

A That is correct. Well, Pauley and Standard. It wasn't long before they were joined in together and we were working for our common interest.

Q And that is the Outer Harbor area that you referred to previously?

A That is true. Except on the seismographic permit, they had acquired their own permit, as I understand it, and did their own work.

As a matter of fact, I think they had that permit before they even filed their application on the West Basin in July of '56. I don't want to be held to that, but that is my recollection.

Q Is this understanding you have described that you had with Mr. Pauley set forth in any written memorandum?

A No. Unless it is set forth in these agreements that we have where we said that we will jointly attempt to acquire these leases. I think it is inherent in the agreement, the fact that that was our part of it, inasmuch as they were going to be carried working interests.

Q I didn't notice that language in there. Would you like to refer back to these and point out any language that requires you to perform services.

A Oh, it isn't spelled out specifically in that sense, Mr. Allen. But I said, I thought it was inherent,

that that was what we were to do as our part of it, inasmuch as they were going to put up the money for the first well. That is all it amounted to. And in my opinion, that is all it amounts to. You drill one well, it is good, fine, you go ahead with it. If you don't, that is the end of it.

Q You drill the first well, it produces good production, then the field pays for itself from then on?

A No problems from then on. You don't need to be carried from that moment on, and if you will notice, in all of these agreements we had the option at any time to convert our carried working interest into a working interest, and the reason for that was, we wanted to be in a position, when they drill that first well, if they did hit oil that we could take advantage of the intangible deduction rather than the operator taking advantage of it.

Q You were also in the position that you didn't risk the loss of any cash if there was a dry hole?

A That's correct. We didn't risk the great sum of maybe \$5000. In lieu thereof, I am sure we could have been paid a much greater fee than that, Mr. Allen. I don't think there is any question about it at all.

Q Did you have an understanding with Kadane & Sons that you were to perform services for your percentage?

A The same arrangement.

Q Was that ever set forth in any written memorandum

or agreement?

A The only agreement we have, Mr. Allen, is the agreement you have before you right now. I forget the exact words, but again, it is part and parcel of our agreement. It was our job to do everything in our power legitimate and proper to follow through on these lease applications.

Q How about Standard Oil?

A The same thing with Standard Oil.

Q No written memorandum requiring you to perform services?

A I am not going to have you put words in my mouth, Mr. Allen. I am saying, that whatever agreement we had, it is there. I have given them to you. But in addition, as you well, and I am sure every member of this Committee knows, people have oral discussions besides the specific matter contained in the agreement.

As a matter of fact, I think you will find in the Pauley thing, it is more of a memorandum of an oral understanding with a statement that if, as and when a permit was granted we would reach a more formal document. I think that is what it says. I don't want to be held to that, but that is my recollection and I think that is also true of one of those Kadane matters. I think they contemplated sort of a memorandum of an oral agreement which would afterwards be formalized if, as and when an actual

permit was issued.

Q I will show you a letter dated April 25, 1956, addressed to Mr. Edwin W. Pauley. It appears to bear your signature and acknowledgment. Also the same for Mr. Pauley. This being the photostat of the original, and ask you if that is a photostatic copy of your signature at the end?

A Yes. I will stipulate that is a true and correct copy of the original document, which I signed and forwarded and is in Mr. Pauley's possession.

Q I will mark that as the next exhibit.
(Document marked, letter 4/25/56, to Mr. Pauley, as exhibit.)

MR. ALLEN (Continuing): I will ask you the same question with regard to a letter between the same persons dated August 31, 1956.

A The same stipulation. The reason for this amendment, after Standard got into the picture our own interest was reduced from the 12 to the 8, as I described to you, and that is all this does, as I recollect.

Q We will mark that as the next exhibit.
(Letter of August 31, 1956, marked as Exhibit.)

MR. ALLEN (Continuing): Are you acquainted with members of the Harbor Commission?

A Some of them.

Q Which ones?

A Mr. Menveg and Mr. Hyland. I don't believe I ever met Admiral Kingman, I believe his name was. I casually met

with Tanner and I think I casually met Mr. Spires, Doc Spires, I think, as they call him. Because I think Kingman is no longer there and somebody else is on the Board now.

Q Have you ever acted as attorney for Mr. Menveg or Mr. Hyland?

A No, not Mr. Menveg and not personally for Mr. Hyland. However, I represented a company in which Mr. Hyland is the official.

Q What company is that?

A The Hughes Aircraft Company.

Q And in the course of your representation of Hughes Aircraft Company as an attorney, have you had contact with Mr. Hyland?

A That is correct.

Q And that is over some period of time; it went back about how far?

A My best recollection is that Mr. Hyland came out here from Bendix about the latter part of '54 or the first part of '55. I understand Mr. Hyland is going to be a witness. He can give it to you exact.

I have been associated as an attorney with Mr. Hyland's company, oh, for a couple of years anyway. Very infrequent contacts, though. I don't want to leave any impression that I am with him every day of the week or anything like that. I have seen him on a number of occasions.

Q Are you acquainted with Mayor Poulson?

A Oh, yes.

Q Do you know him quite well?

A I would say since certain newspaper stories broke about a year ago, I have reached the point where I know him fairly well, because we have both been discussed and talked about and we have had occasions to discuss and talk about what was being discussed and talked about.

Prior to that time, I would say -- if you would like to have it, I can give you the whole relationship that I have had with Mayor Poulson.

Q Go ahead.

A I met him when I was chief counsel for the State Income Tax Department in Sacramento when he was a member of the Assembly, I would say about 1941. At that time he was a seat mate of my present law partner, Frank Waters. From then until 1953, I would say I knew him in a most vague way. By that, I met him with Frank on occasions. I, of course, became acquainted with him. As you gentlemen know, attorneys from the departments, at least from my days, used to make frequent appearances before Legislative Committees. I met him and other members of the Assembly. But I would say it was a most casual, remote relationship.

Of course, he became Mayor, as we all know, of the City back in '53, I believe it was, and down here in the practice

of law in Los Angeles, I came to know him a little better. But I would say the relationship is not even close today, but I would say it is closer during the past year than it has even been.

Now, of course with the Mayor -- these are subjective things we are talking about -- I can merely give you my reaction to it. Maybe he has a different opinion entirely.

Q Have you ever contributed to any of Mr. Poulson's campaigns?

A I have never contributed to any of Mayor Poulson's campaigns or anybody else's campaigns. I have never engaged in a political campaign of any kind or nature. I have never been interested in politics.

Q Prior to, say, January of 1957, did you see Mayor Poulson from time to time?

A Prior to when?

Q January of 1957.

A You are now talking about the key year '56, I assume.

Q Right.

A Oh, I would say I saw Mayor Poulson on a few occasions, certainly, in 1956. But I say to you, I never had any occasion to discuss these leases, and that is what we are talking about and there is no use playing cat and mouse, until the first story broke in the newspaper. I believe the first story was about the 28th of January.

He called me in and he said that he had heard these stories about you and your oil, and he asked me if I knew of anything wrong in connection with any of those leases, and I told him as far as I knew there was certainly nothing wrong with them. I saw no reason in the world why we as individuals could not apply for these leases. Certainly, Standard Oils of the world were not the only ones that could apply for such leases; that we were in a financial position to apply for them and drill and there was no reason we couldn't, and we had done nothing wrong.

Other than that, from my personal recollection, I never discussed the oil leases with the Mayor of the City of Los Angeles during 1956 or any other time. Now, from that day to this day we have discussed it on many, many occasions.

Q I see. Prior to that conversation you have just described, would it be correct to say your acquaintance with the Mayor was casual?

A I would say that is the way I described it, Mr. Allen.

Q I don't want to put words in your mouth.

A No, I know you can't and I know you wouldn't try. I would say that is a good description of it. It certainly was not a close relationship, let's put it that way.

Q Was he entertained in your home or you in his home?

A Mayor Poulson was never in my home in his life until roughly a month ago. He has been there twice, I would say, in the last month. It has nothing to do with this matter we are discussing today.

Q Prior to this conversation with the Mayor you just referred to about these leases, had you asked the Mayor --

A Mr. Allen, would you pardon me for interrupting. We made arrangements with you for Mr. Hyland to be down here this afternoon at two o'clock. He is somewhat of a busy executive. Do you think you will call him at two? The way it looks I may be here all day.

Q I understand the Mayor will be here this afternoon and we will take Mr. Hyland right after that.

A Could I have someone call him and suggest he be here at three o'clock?

Q That is all right.

A May I be excused just a moment.

THE CHAIRMAN: We will take a two-minute recess.

(SHORT RECESS.)

THE CHAIRMAN: The meeting will please come to order. I would like to introduce Assemblyman John O'Connell of San Francisco, sitting over here on the right.

BY CHAIRMAN ALLEN:

Q Mr. Arditto, getting back to this period prior to

January 1st, 1957, before that did you ever visit the Mayor at his home?

A I have never been in the Mayor's home in my life.

Q Did you have lunch with the Mayor from time to time?

A Oh, yes, I have had lunch with the Mayor, dinner, I have been on social occasions with him, but very few and far between, Mr. Allen.

Q Around December of 1956, had you personally requested the Mayor to run for re-election?

A You are referring now, I am sure, to the date on or about December 27, 1956, at a luncheon that was held at Perino's. I attended that meeting. I did not make any request. I listened.

Q Prior to these same newspaper stories that you have referred to, have you discussed these oil lease applications with any member of the City Council?

A Oh, definitely.

Q Which ones?

A I had negotiated with Mr. Timberlake primarily during the period roughly October, November, December, on what I call for brevity sake the LAHODCO lease. I never discussed the other three that you are talking about.

Q You negotiated with Mr. Timberlake?

A Well, Mr. Timberlake was one of three members of an industry and transportation committee of the City

Council, to whom LAHODCO's application for a lease, as described up there as beyond the breakwater. That application had been referred by the City Council to this Committee of the City Council, the Industry and Transportation Committee, and Mr. Timberlake was, I guess they call him the Chairman of the Committee.

Q In these negotiations with Mr. Timberlake, were any changes made in the royalty provisions or returns to the City out of your original application?

A Well, I am not trying to avoid your question, but I want to answer it this way: The application itself, as I recall, merely described the land. I am not even sure whether we stated the proposed royalty rate in that application. If you happen to have it there, it will help me testify, because we are going back, I don't know, a couple of years here. It was dated August 31, 1956.

Q I will show you a photostatic copy of a letter on the heading Los Angeles Oil Development Company, bearing the signature of J. R. Pemberton and ask you if that is the one you just referred to?

A Yes. This is a true and correct photostatic copy of LAHODCO's original application. I notice we described the area, which is roughly, as I understand, all the area beyond the breakwater, with the exception of whatever area is to the west of a prolongation of Gaffey Street down there. As I put it, apparently there is considerable acreage to

the left, but it is not covered by LAHODCO's lease. We also did mention the proposed royalty rate.

Now, if you notice, there is no -- in this application -- this is what I am getting at. In this application there is not contained the defined terms of a proposed lease. All we talked about was the area and the proposed royalty rate. Now, during the negotiations that I had on behalf of LAHODCO with Mr. Timberlake and his Committee, primarily Mr. Timberlake, there were discussions about that royalty rate. Mr. Timberlake proposed other minimum rates, I think at one time he proposed that we should have a minimum of 30%, whereas you will notice we proposed 18 and 2/3%. He talked of various percentages, getting down to 20% finally, and I took the position on behalf of my company that we thought that this was a very fine royalty proposal in an unproven field, and in brief we refused to change that.

Now, after December 18, 1956, when the City Council made its motion proposing in effect that the City enter the lease with LAHODCO and directing the City Attorney's Office to prepare a lease, substantially along the lines of a lease which they proposed, or rather attached to their motion. During the period December 18, 1956, and the time the formal lease came down to the Council on December 27th, I believe it was 1956, I had a number of conferences with members of the City Attorney's Office, a very brief

discussion with Mr. Arneberg himself, and he turned it over to Spence Halverson, who Mr. Arneberg informed us Halverson had been preparing the formal lease pursuant to the direction of the City Council.

During that ten-day period Mr. Halverson made a number of very serious changes in the lease that was otherwise acceptable to LAHODCO. In fact, these changes we opposed vigorously. I remember particularly the one on subsidence. There is a provision in there on subsidence, that in my opinion there isn't a major oil company in the State of California that would sign such a lease. At least, that is what I have been told by most of them. I have heard testimony by Mr. MacGruder in our State case where he said he wouldn't sign it, his company wouldn't sign it. Other provisions relating to the time to do things and so forth. But I would say we had two or three conferences with Mr. Halverson re those matters and there were substantial changes made in the lease that was otherwise acceptable to us, all of which protected the City and didn't do us any good.

Q Now, the royalty rate described in your application of August 30, 1956, however, was not changed, is that right?

A That is correct.

Q They were carried over into the lease that the City Council approved?

A That is correct.

Q In these negotiations with Councilman Timberlake, did Mr. Timberlake inform you that other oil companies were trying to get a lease on the same property?

A Well, I don't know whether he informed me. I knew about it. I knew that the so-called CUSS Group, Continental, Union, Shell and Superior had made an inquiry. I also discovered that eventually General Petroleum had made an application. The papers carried this. I don't think Mr. Timberlake as such informed me about it.

Q Did you discuss those inquiries with Mr. Timberlake?

A Never. I never discussed any other application by my own.

Q The letter of August 30, 1956, we will mark as the next exhibit.

(Letter 8/30/56, application, marked as exhibit.)

A As a matter of fact, Mr. Allen, there was nothing to discuss, because they were merely letters saying in effect, we would like to talk to you about a lease some time, as I recall them.

Q I will show you a letter dated August 31, 1956, addressed by the City Clerk to the Industry and Transportation Committee, also to the Los Angeles Harbor Oil Development Company and other people, and ask you if you ever saw the original of which that is a copy?

A Yes. I would say I have the duplicate original, or original of this letter in the LAHODCO files.

Q And among other things, this letter directs the Los Angeles Harbor Oil Development Company to furnish the City a financial statement.

A That is correct.

Q We will mark that as the next exhibit.
Letter 8/31/56 to City Clerk marked as exhibit.)

MR. ALLEN (Continuing): I will show you what appears to be a copy of a letter dated November 19, 1956, from the Los Angeles Harbor Oil Development Company, and bearing your signature, the first page of which is a typewritten copy and the second page is a photostatic copy. I will ask you if you can identify that?

A I will stipulate that is a true and correct copy of a letter, of the original of which was sent to Mr. Timberlake, the Chairman of the Industry and Transportation Committee, and signed by me as Vice President and Secretary of LAHODCO.

Q We will mark that as the next exhibit.
(Copy letter 11/19/56 from LA. Harbor Oil Development Co. marked as exhibit.)

MR. ALLEN (Continuing): Now, this letter just described contains a statement with reference to the financial picture of LAHODCO as follows:

"The individuals referred to as officers and directors

in the foregoing paragraph state without reservation to your Committee and to the City Council that they are in a position to furnish at least \$2,000,000 to this corporation to further process the application of the company once the application in question is granted."

MR. ALLEN (Continuing); You are familiar with that paragraph?

A Most familiar, yes. I wrote it.

Q Would you explain to us that that means?

A Well, I don't quite understand your question, Mr. Allen. I think I said that we had available to us \$2,000,000.

Q Where was the \$2,000,000 --

A Among the group who were listed as officers and directors of LAHODCO.

Q Including yourself?

A Absolutely.

Q Was it your understanding with these other gentlemen that you were to advance a portion of the \$2,000,000 personally yourself?

A That is correct.

Q How much?

A Well, we haven't decided that. The closest that we finally got to it is the proportions on July 2nd, 1957, Minutes that I referred to in the earlier part of your

meeting where I was to buy that stock and that I would put up \$149,000, roughly, if necessary.

Q Did you have any understanding on November 19th, 1956, with any of these other men associated with you in LAHODCO as to how much any one of them was going to put up?

A I would say not at that time, except that we had a gentleman's understanding among ourselves that we had that amount of capital to put up, if necessary and if required and if we got the application without any definite agreement among ourselves as to exactly how we would divide the thing up.

Q And it is obvious to you as an attorney that that understanding was legally unenforceable, isn't that right?

A Well, I am not going to sit here and decide the question of law with you, Mr. Allen. I might disagree with you, but I don't think that would serve any purpose.

Q There is no definite amount that you were committed yourself to advance out of that \$2,000,000?

A Not until, I would say, the meeting of July 2nd and the application filed with the Corporation Commissioner which is on file. The whole plans are set forth, and I am sure you have a copy of it where we definitely set up proportions.

Q And the date of the letter we just referred to, the Corporation, LAHODCO, had no assets other than this understanding described in that letter?

A Well, I used to fight with Mr. Silver over that question, Mr. Allen. I think we had lots of assets. I think we has the oral commitments to our corporation. In other words, we owned the corporation. We felt that it would be a completely idle act to put any specific assets into this corporation, one, until we got the lease; two, after we got the lease, it was attacked immediately and I can't think of any more idle act than to put money into this corporation unless Judge Gitelson comes down with a decision in our LAHODCO case.

But for your information, I stand ready, able and willing to put up my share of \$150,000 in this transaction if this lease is validated.

Q Mr. Arditto, I will show you a document that I know only as a draft of the proposed lease between the City of Los Angeles and LAHODCO and I will ask you if you can identify that.

A Well, I don't again want to play cat and mouse. We did sign a lease. If you will tell me that is the lease we signed and you will verify it, I will accept that.

Q I can't tell you that.

A The only way I could honestly say, and you know as a lawyer, I would have to get my original duplicate and compare it word by word. Let us assume for the moment -- I don't question that it is the document. Certainly, there is a lease in existence.

Was this taken, Mr. Cook, from the files of the court? If it is, I will certainly stipulate, because it was introduced as an exhibit.

Q I can identify it as a Resolution produced by Mr. Timberlake.

A Well, this is not the lease. Wait a minute, the Resolution?

Q It is not signed by anybody.

A Now, wait a minute, is it on December 18th or December 27th?

Q Well, let me see.

A If it is December 18th, it is not the lease, because there were a number of very substantial changes made by the City Attorney's Office.

Q Well, I will show you a --

A Could we save time. I will certainly stipulate with your investigators or you, for the record, that we will get in the record a true and correct copy of the lease. I am not trying to take up your time. I just don't want to agree that is a true and correct copy of something until I compare it.

Q I understand. Now, I will show you a Verifax copy of a report of the Industry and Transportation Committee to the Council of the City of Los Angeles regarding the application of LAHODCO to the area outside the break-water and ask you if you ever saw the original of that?

A Are we going to eat?

Q Pretty quick.

A I am getting pretty hungry. Again I am not quibbling with you, Mr. Allen. It looks like a document with which I am familiar, and I would say it appears to be the report of the Industry and Transportation Committee.

Q Did you prepare the original of that document?

A I did not. No, I had nothing to do with it.

Q Did you prepare the draft that was attached to this, in the form of a lease?

A I did not.

Q Do you know who did?

A Yes. Mr. Timberlake told me he did. I shouldn't say, "Yes, I know." Mr. Timberlake told me he did.

CHAIRMAN ALLEN: We will take a recess until 1:30 and I will instruct the witnesses under subpoena to come back at that time.

(Hearing recessed until 1:30 o'clock P.M.)

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LOS ANGELES, CALIFORNIA, THURSDAY, JANUARY 23, 1958, 1:30 PM

--oOo--

JAMES J. ARDITTO,

having been previously sworn, resumed the stand and testified as follows:

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Mr. Arditto, just before the noon recess we were referring to a report of the Industry and Transportation Committee to the City Council, apparently dated December 10, 1956, and a draft of a lease attached to it. I hand these back to you. As I recall, you told us that Councilman Timberlake told you that he prepared these documents?

A That is correct.

Q Did anybody else ever indicate to you that they had prepared it?

A No, they did not.

Q You don't have any information to the contrary of Mr. Timberlake's statement?

A That is correct.

Q With reference to the application of Pauley, Standard Oil of California, and yourself, Frank W. Waters and Noah Dietrich, I will show you a letter dated September 17, 1956, addressed to the Board of Harbor Commissioners,

a typewritten copy, and ask you if you signed such a letter?

A Yes, I would stipulate that this is a true and correct copy of an original application which was signed by Mr. Pauley, Mr. Lamb and Mr. Bowman on behalf of the Standard Oil Company of California, and myself and Mr. Waters and Mr. Dietrich.

Q Now, look at that letter, Mr. Arditto. What royalty rates did the application offer to the City for this lease in the Outer Harbor?

A Such rate "which shall be mutually established as the royalty rate."

Q An application for a lease without specifying a royalty rate, is that right?

A No, I don't agree with that. It specifies such rate as shall be mutually agreed upon between the parties.

Q Was that royalty rate ever specified in any application you filed or joined in filing for the Outer Harbor lease?

A For the Outer Harbor lease, no, never to that point. As far as I recollect, let's see, now, this is the Pauley -- yes, as far as I recollect, we never reached the point where we ever had any occasion to specify a specific royalty rate or to sit down and mutually agree on a royalty rate.

Q Mark that as the next exhibit.

(Letter 9/17/56 to Board of Harbor Commissioners marked as exhibit.)

MR. ALLEN (Continuing) Now, getting back to the LAHODCO lease beyond the breakwater, did that lease call for any payment to the City on getting a lease?

A You mean as a bonus, advance bonus?

Q Cash bonus?

A No.

Q There was no cash bonus. There was a filing fee on making the application, or was there not?

A I can't remember if there was a filing fee. I think the Board of Harbor Commissioners had a \$50 filing fee. But as I recall, there was no fee. I may be in error, but my recollection is there was no fee when LAHODCO's application was filed, or required.

Q On any of these leases or lease applications that you have described where you have an interest, does anyone else have any right to participate or share in the interest that is stated as being owned by yourself?

A Yes.

Q Who?

A I have promised three personal friends of mine, one, Phil Rhiner; two, Jack Strickland; three, Clarence McKinley, that if the LAHODCO lease is eventually validated, I would give each one of them 1% of my interest. As to the LAHODCO lease, I have also offered to Mr. Waters the right to acquire 1/2 of my interest.

Q Has Mr. Waters ever accepted that?

A No, he has not as of this date, and I can well understand why. There is nothing to accept or talk about at the moment.

Q One of the associates on several of these leases, Noah Dietrich, do you know whether anybody has an understanding or arrangement with Noah Dietrich to participate in his share?

A Do you mean Mr. Hughes, Mr. Allen; is that what you want to know?

Q Anybody. All right, let's take Mr. Hughes.

A Mr. Hughes definitely has no interest in this lease or any lease that we have discussed here today in any manner, shape or form. He has never had any interest in it and he does not have it today. Now, other than Mr. Hughes, what arrangement or agreement Mr. Dietrich may have with some of his personal friends, or if he has any, I don't know. None within my knowledge.

Q You have no knowledge of that?

A No knowledge whatsoever.

Q And neither Mr. Hughes or any of his corporations, commonly referred to as the Hughes Companies, has any connection with any of these leases?

A Absolutely not. And let us be more specific; I am sure you have Mr. Hyland in mind. He has no interest in this.

Q I didn't, but I am glad to get it cleared up.

Is there anything further you would like to tell the Committee?

A No, I think I have said enough.

CHAIRMAN ALLEN: Are there any questions by the Committee? Mr. Burton.

EXAMINATION

BY ASSEMBLYMAN BURTON:

Q During the course of your testimony you have mentioned a figure of \$5000, which approximates the amount that your office is out of pocket presently.

A I said approximately, Mr. Burton.

Q Now, do you have any arrangements for reimbursement of that?

A None other than the usual arrangements that attorneys have with their clients. I would say that unless we eventually end up with a lease and develop oil and LAHODCO makes some money, I would say we would be in the position that many attorneys are who advance costs on behalf of their clients.

Q \$5000 is all out of pocket costs, or does that include a reasonable estimate for services rendered by other counsel and yourself that you have had working on the case, for time they spent on it?

A No. The other attorneys were Mr. Prenner, Young and Pierovich, and if you will notice in the July 2nd

meeting on the application for permit for stock they are listed as having a percentage of stock here. They worked entirely, taking their chances that the lease would become valid and oil would be produced, if obtained.

No. The \$5000 I am talking about, Mr. Burton, is actually out of pocket money for such things as filing fees, incorporating, applying for a permit to issue stock, depositions in the case, and that sort of thing.

Q You have also mentioned this figure of approximately \$5000 in connection with the cost of drilling the first well, or something in that area. Could you clear that up for my benefit?

A Yes. That, of course, is a rough estimate on my part. I reached that figure --

Q A rough estimate of what?

A In this way: I have been told that you can drill out in the Outer Harbor, for example, or outside the break-water for roughly \$250,000 at the outset. Figuring that my 2 and 2/3% of that, I feel that what my carried working interest was really worth, what it would cost Pauley on the one hand and what it cost Standard on the other hand was 2 and 2/3% of \$50,000. The theory being, that if they didn't hit oil, that is all we would drill anyway, and in every lease I have ever seen the only requirement is that you drill the one well. In other words, that is the LAHODCO lease, and that is the way the common form of lease used

by the Board of Harbor Commissioners is, is the requirement to drill the one well.

Q Did you have what you understood to be a firm agreement with the group that you had initially made application to the City for drilling for your percentage arrangement?

A I don't understand your question, Mr. Burton.

Q Well, you have testified that Standard made one application and a group with whom you were associated made another; subsequently, the two groups got together and your share of it dropped from 12 to 8%, I think you said.

A On the one hand, and 25 on the other.

Q What do you mean by that?

A Well, because in the bi-party arrangement, say between Pauley and ourselves, we had a 12% carried working interest with the right to acquire an additional 5. By the time we got through the tri-party arrangement with Standard, Pauley and ourself, we ended up with an 8% working carried interest with an option to buy 2.

Q Could you give the Committee the benefit of your opinion as to why your group didn't seek to go ahead on its own and competitively bid for this property, or this leasehold interest with Standard, rather than the two of you joining hands and thereby eliminating competition?

A Could I have that back again.

(The record read.)

THE WITNESS: Do you mind trying to restate that question. I find it rather difficult.

BY ASSEMBLYMAN BURTON:

Q Not being intimately familiar with the facts, except those which you have testified to, it occurred to me that there were two competing applications viewing obtaining the leasehold interest or the drilling rights.

A You mean Pauley on the one hand and ourselves and Standard, for example, on the other hand.

Q Yes.

A Each unbeknownst to the other as far as I am concerned. As far as I was aware, I had no knowledge that Standard was considering applying, for instance, on the Outer Harbor or considering applying on the Inner Harbor.

Q Perhaps it would be a little quicker if I would give a statement of this situation as it appears to me and you can tell me wherein I am not accurate.

It appears to me that you had at least two competing applications; upon each of the competing groups finding there was another interest in this property, they decided perhaps they could get together and each of them make a little bit less, perhaps, but insure that this group probably would get the permit and presumably the rights to drill on their own. One inevitable result flowing from this act is that the City was not given the benefit of

competing bids.

Now, wherein is that summary inaccurate?

A Well, if there is an implication in it that the purpose of the tri-party agreement was to act in collusion to keep down bidding, I would deny that. That was never discussed or considered by anybody.

I think I might answer your question this way: I think I testified that Mr. Call, Asa V. Call of Standard Oil, a member of the Board of Directors, called us, that is, called Mr. Waters in and asked us to be their attorneys representing them on their application for a fee. And I think I testified that we turned that down because we explained to them our Pauley relationship and our Kadane relationship. Then, from that moment on -- and I also explained that Mr. Call wanted to know if we had any objection if he tried to get together with Pauley on the one hand and tried to get together with Kadane on the other hand, and I think I explained that I did not participate in those discussions. So actually, I think either Mr. Call or his representative, or Mr. Pauley or his representative, or a representative of Kadane & Sons would be better qualified to answer your question than I am. Because, actually we were sitting over here with this very small interest. We didn't particularly care whether we had one partner or two partners, and I use "partners" in the very, very loose sense, not the legal sense.

Q But you did care that your percentage was going to be reduced?

A Oh, very definitely, very definitely. And I fought it, I opposed it.

Q May I just state that I gather from your response to my question that my construction of that chain of events isn't necessarily an unreasonable one; there being many constructions one can place on this chain of events, but certainly one inevitable aspect was that the City found itself with one of the competitors being eliminated and the potential competitors getting together on a basis of mutual self-interest, which I don't necessarily say is a bad thing.

A I say it is a bad thing. Such a procedure would be very definitely collusion, sir, and it would invalidate any lease. So as lawyers, why would we proceed under circumstances that could, right at the beginning, somebody might say the lease would die aborning. We certainly wouldn't place ourselves in that position. So if there is any implication of that type in your question, or statement, I most heartedly disagree with it. It was the furthestest thing from anybody's mind.

I think the thing that ultimately happened is that which happens, probably on innumerable occasions and commonly in the oil industry, where people get together and decide rather than to, shall we say, take it all, sit down

and decide to go jointly into a transaction.

I notice Mr. Scott from Standard is here. He may be better able to help you. I assume Mr. Hutchins from Pauley's organization, or Mr. Pauley will be here, and I assume you will call Mr. Call and get his version of this. They may be better able to help you than I am. I have done the best I can, except to deny in any way that there was any collusion to restrict bidding.

Q Just one final question. In this initial application, at that time you did include in your application a proposal for the percentage royalty.

A Which application are you talking about?

Q The one that was made just immediately prior to your group and Standard getting together.

A Well, that occurred twice, on the West Basin, in the Outer Harbor. I know at some place we -- the usual, normal 30 to 50% schedule that is always used on the Harbor was included. Now, I cannot from memory tell you when we put it in, but the records of the Harbor Commission will disclose that. Do you the record here, Mr. Allen?

CHAIRMAN ALLEN: What is that on?

THE WITNESS: Any document that first discloses as to any of the applications Mr. Burton is talking about in which we specifically set forth a royalty schedule.

CHAIRMAN ALLEN: Just a minute.

THE WITNESS: I just can't answer you from memory. I know we did eventually, Mr. Burton. Again, we are talking about almost two years ago, and, frankly, I have forgotten about all these leases, because as far as I am concerned, they have been dead for some time, unfortunately for everybody, in my opinion.

While they are checking, you gentlemen might be interested in knowing that in the West Basin, since that was dropped, there have been two wells drilled, I understand to the north and the south of it, and they are both dry holes. I think the City of Los Angeles lost \$200,000 in the advance royalty that was contained in that offer, which I doubt they will ever again get from anybody else.

EXAMINATION

BY CHAIRMAN ALLEN:

Q You are predicting, I take it, that the City won't get in a cash bonus in that amount offered by an oil company?

A In my opinion on the West Basin, no.

Q I notice by the map that these parcels we are talking about are adjoining the Wilmington Oil Field, which is just east of them. Are you acquainted with the history of oil production in the Wilmington Oil Field?

A Oh, I understand they have produced fabulous figures. I don't know exactly, Mr. Allen. I know it is a

very, very substantial amount of money.

Q And, of course, as you said, nobody knows exactly what is under the ground in these parcels we are talking about, but I assume that you are interested in the possibility.

A I think a lot of people are, sir. I certainly am.

Q Do you know whether on any of the lease applications on these parcels we have been discussing today, either any you participated in or competing applications, there were offers by the applicants to drill more than one well?

A As I recall, in response to the Board of Harbor Commissioners' call for offers on the West Basin, when they wrote to some 24 people, that is anybody who ever showed any interest in this area, I believe some of them did include in their offers the commitment to drill three wells. However, that in and of itself, Mr. Allen, I don't believe tends to cause any conclusion to be drawn, because as I also recall, those offers were what I call a net profit arrangement, and for whatever it is worth, in my opinion, that net profit arrangement isn't worth the paper it is written on.

Q You mentioned a few minutes ago about the \$200,000 cash bonus offered on the Inner Harbor lease, the application there.

A Yes.

Q Do you remember when that was first offered?

A I think it was pretty much included from the beginning in Standard's original inquiry. I don't want to be held to that. But do you have Standard's -- I think it is the original application of July 6th. I know what you are getting at, Mr. Allen.

We further clarified by letter dated January 4, 1957.

Q That is right.

A But I think it was included at all times. Now, I may be in error on that. Again we are talking about something, specific things I have lost interest in for a considerable period of time and I haven't looked at these documents.

Q I will show you the letter of July 6th, addressed by Standard to the Board of Harbor Commissioners, and ask you if that is the one you just referred to?

A Wasn't it five payments of \$40,000 each? That is what I recollect.

Q That is right.

A Payment by applicant to the Board of Harbor Commissioners the sum of \$40,000 annually for a period of five years commencing on the date when the permit requested becomes fully effective.

In answer to that, I pointed out to Mr. Scott in one of my early discussions that that was rather ambiguous and

I asked him what he meant by that. I said, is that a very definite offer to the Board of Harbor Commissioners that you will pay them unqualifiedly \$40,000 for five years, and he said that was the intention of Standard, and in fact, we had quite a quibble, when we finally got together on our tri-party arrangement as to whether we would make this very definite, positive offer, and I might say that Standard won out finally on their contention that there should be the definite, in effect payment of a \$200,000 bonus.

Q Now, \$200,000 was mentioned in this letter of July 6th, as well, which we will mark as the next exhibit. (Letter of July 6th marked as exhibit.)

MR. ALLEN (Continuing) As I understand, that offer is reimbursable out of royalties.

A Only the last \$100,000, as I understand it. But it was a definite payment of \$200,000. If they didn't get the royalty to offset it, the City still had the \$200,000.

Q Well, the letter states, "said annual payment shall be advance royalties to be credited on royalties payable by applicant during each succeeding year period on account of the production of oil," and so forth.

(A)
Let's look at the January 4, 1957, letter.

Q But as far as the July 6, 1956, letter is concerned --

A Oh, you are absolutely right on the July 6th letter, but on the January 4th letter, if you have it, let's clear the record.

Q All right. I will show you papers, let's see, well, they are all three letters together, one dated January 2nd, 1957, bearing your signature; one dated January 4, 1957, bearing your signature, and the one of July 6th, 1956, just referred to, and ask you if you can identify those.

A The letter of January 2nd, 1957, bears the signature of Standard Oil by Scott, Kadane by somebody, F. G. Waters, Arditto and Dietrich by me.

The letter of January 4, 1957, bears the signatures, Standard Oil Company of California by Scott, Kadane by somebody and Waters, Arditto and Dietrich by me.

The January 2nd letter, this is a true and correct copy of the letter as I recollect it, sent and signed by the group that I mentioned.

The January 4, 1957, letter also sent by the group, and this is a true and correct copy.

Now, our offer includes a payment of \$100,000 bonus which is not reimbursable. Our offer includes an additional guaranteed payment of \$100,000 as advance royalty payable at your election, either in a lump sum or at the rate of \$20,000 per year for a five year period. Such payment shall be reimbursable out of the royalties.

Q The letter of January 4th is different from the offer as it stood up through January 2nd, isn't it?

A Oh, different, I would say solely in this sense: that the letter of July 6, 1956, was more in the nature, as I interpret it, sort of, as oil companies are wont to do, a rambling letter saying that we are willing to talk about something like this, whereas the letter of January 4, 1957, is a specific, unreserved offer.

Q Wasn't the letter of July 6th an unreserved offer?

A I would not construe it as such, Mr. Allen. I argued on many occasions with Mr. Scott re that very matter.

Q How about the letter of January 2, 1957, wasn't that an offer to enter into a lease?

A Yes, that's right. But, of course in the interim there had been some more discussions with people, too, as I recollect about this.

Q The letter of January 2, 1957, did not call for the Standard Oil putting up \$100,000 cash in execution of the lease, did it?

A I think it did when all of the circumstances were taken into consideration. Because, you have to recall there were some conversations that elapsed between July 6, 1956, and January 4, 1957.

Q Conversations with who?

A Oh, Mr. Caughlin of the Board of Harbor Commissioners, for example: Mr. Menveg, Mr. Hyland, where these

things were clarified from time to time.

Q And it was under these conversations that Standard and Kadane and your group were to put up the \$100,000 cash?

A I don't think there is any question that at all times it was clear that, beginning with Standard's application that they intended -- they were talking about giving the City the \$200,000.

Q Over a five-year period?

A Now, wait a minute, I am talking about a sum of \$200,000.

There was an amended application filed here. Do you have that? Is there anything contained in that?

Q Application by who?

A The tri-party application filed on November 23rd, 1956.

Q Yes, I have a letter dated November 23, 1956, addressed to the Board of Harbor Commissioners, and I will ask you if that is the one you have just mentioned?

A Yes, this is the amended application. But I see it doesn't cover the subject that I was referring to.

Q Well, I will show you the one you just identified, the letters of January 2, 1957; January 4, 1957, July 6, 1956, and I will ask you if anywhere in that is any obligation on the part of Standard or Kadane & Sons or your group, or together, prior to the letter of January 4, 1957,

to put up \$100,000 cash in execution of a lease?

A Well, not specifically in that form, but when you read -- do you have the July 6 deal here, too?

Q It is attached to the one you have in your left hand.

A Yes. You take the July 6th letter from Standard where they talk about \$40,000 annually for five years with the 30 to 50% schedule referred to, the November 23, 1956, amendment to that application, that is the effect of the November 23rd amendments and it in effect incorporates that by reference, and only by adding these other names and the letter of July 6, plus the letter of January 4th, it isn't until the July 4 letter that in writing you have the specific statement that it is \$100,000 in cash, plus \$100,000 in advance royalty.

Q Do you mean the January 4th letter?

A Did I say anything else?

Q Yes.

A I meant January 4, 1957.

Q I don't want to quibble with you over this, but I can't find in these letters up through January 2nd anything other than that Standard Oil would pay \$40,000 a year for five years reimbursable out of the royalty.

A Well, I think you are absolutely right in the letters that we have here. There is no question about that.

Q We will mark this referred to as the next exhibit.

(Letters 7/6/56 and 1/4/57 marked as exhibits.)

MR. ALLEN (Continuing) I will show you a form letter from the Harbor Department, with a typewritten signature Bernard J. Caughlin, General Manager, apparently an invitation to submit bids on the Inner Harbor area and specifying a deadline of 12 o'clock noon, January 2, 1957, and ask you if you have seen such a notice?

A Yes, I have.

Q It was sent out by the Harbor Department in December of 1956, was it not?

A I believe December 20th, if I am not mistaken. I can't fix the exact date.

Q Well, the form is not dated.

A I know it was roughly two weeks elapsed between the time this letter went out and the deadline given. But if you will read this, Mr. Allen, "As you have previously indicated a desire to make a proposal for drilling for oil in the Los Angeles Harbor, you are accordingly notified that it is anticipated that a negotiated contract will be entered into by the Board on this property and that formal advertised proposals will not be solicited."

Now, what happened, as I understand it, some 24 companies received this. I forget how many answered it. But they had a considerable number.

Then, from that moment on, as I recollect, anybody who filed an answer to this letter was down there negotiating

with the Harbor. Everbody was being cagey, nobody specifically said, "We offer 'X' number of dollars under 'X' number of terms." I think when Mr. Caughlin gets up here, he will tell you he had to practically talk to everybody to get them to specifically specify exactly what they had in mind.

Now, I am sure that what Mr. Scott and the rest of us had in mind when we sent our letter in, we didn't want our competitors in writing to go down there -- these are a matter of public record, you understand. We could see somebody else's, they could see ours, to know exactly what our offer was. But when Mr. Caughlin inquired of us, we told him that is our offer, that is what we mean by that letter, here it is, \$100,000 which is not reimbursable, \$100,000 payable either in five years or in advance as an advance royalty, and we will confirm that in writing to you, and that is what we did.

Now, that didn't happen only to us. I think you will find it happened to practically everybody who answered this letter.

Q Do you mean there were negotiations between the Harbor Department and other oil companies?

A Not negotiations, sir; clarification of offers.

Q There was?

A That is my understanding.

Q With what oil companies?

A You will have to ask Mr. Caughlin. He didn't mention any specific ones to me. But I know -- I had a conversation with him and I told him in answer to this question what our offer meant, and I was authorized to say so by Mr. Scott and the Kadane people on behalf of all of us that that was exactly what we meant by our \$200,000.

Q Mr. Arditto, these documents you have just identified show a notice by the Harbor Department with a January 2nd, 1957, deadline, and the Standard and your group were allowed to amend it and in effect file a new application on January 4th.

A Those are your words, Mr. Allen. I don't believe that that was the situation at all. We were allowed to clarify that which we told them orally on January 2nd at the time the letter was received, because we delivered it in person.

Q Well, the letter of January 4th was different from the letter of January 2nd, wasn't it?

A Not in my opinion, sir. It was merely a clarification of the whole series of correspondence with the Harbor Department.

Q Do you know whether any other oil companies were given the same privilege?

A It was my understanding they were, that is correct.

Q In referring to these five applications for leases that have been discussed today in which --

A Wait a minute now.

Q Beyond the breakwater, the Outer Harbor, the Inner Harbor, the 27-acre parcel in the Inner Harbor and The El Rancho application.

A Right.

Q Your name appears in each one of those as an interested party.

A That is not correct. We never at any time participated in the Rancho Golf Course. The rest of it is correct.

Q Well, you had an understanding with Mr. Pauley at one time to get such an interest, didn't you?

A That is correct. But that isn't what you said. You said that my name appeared in an application, and that is not correct, because we never took any steps on the Rancho Golf Course.

Q But, including the El Rancho Golf Course, you were an interested party in each one of these, whether you were shown --

A That is not correct. I was an interested party in four of them, not the Rancho Golf Course.

Q All right. Didn't you just tell me that you had just had an understanding with Mr. Pauley for a percentage in an application to be made on the El Rancho Golf Course?

A Well, if I did I don't understand my own words, Mr. Allen. I thought I made it very clear that while we had

an agreement that among other things we would go out and try to acquire a lease, I also testified that as far as Rancho was concerned we never did anything in connection with it.

Q You say "we" had an agreement; who was "we"?

A The group. Mr. Waters and myself and Mr. Dietrich.

Q All right. Accepting your statement as to what happened on the El Rancho Golf Course, we find that you appear in each one of these transactions; Mr. Waters appears in all of them except the one on LAHODCO and you told us this afternoon that you have offered Mr. Waters a half interest in that.

Mr. Dietrich appears in all of them, with the exception of the 27-acre lease in the Inner Harbor area.

A That is correct.

Q Does Mr. Dietrich have any understanding with either you or Mr. Waters that he has an interest or can get an interest in that 27-acre parcel?

A None whatsoever.

Q How did he happen to be left out?

A We just didn't include him, that is all.

Q Has the City Housing Authority made any oil leases within the last couple of years?

A Well, you asked that question this morning and to the best of my recollection I don't believe so, Mr. Allen.

I would have to say none, because I have been the attorney for them since October '54 and I know of no leases.

Q Did they have applications from somebody for a lease?

A Look, I don't object to answering your questions, but isn't your Resolution limited to tidelands?

Q No.

A It isn't?

Q No, sir.

A Well, where does anything I have done or not done in connection with the Housing Authority have anything to do with this Committee?

Go ahead and ask your question.

Q Let us put it another way.

A I mean, we could sit here and talk about a thousand things, but go ahead, there seems to be a general interest in this subject, so let's cover it.

Q Wasn't there an application, or a request by a corporation in which Mr. Halverson, one of the Deputy City Attorneys, had an interest, for an oil lease from the City Housing Authority?

A That is correct.

Q Did they get that lease?

A They did not.

Q Why not?

A For the simple reason, among others, PHA decided

contrary to the feeling of the local Housing Authority, the leases should go out unsealed, public bids, advertised bids, as distinguished from the negotiated leases.

Q Was there the further reason that this corporation was not organized with assets or drilling equipment?

A Well, you are referring to a report that Mr. Olson or myself signed on or about June, I believe, 1956, where we did state that among other reasons why we were recommending that we felt the Apache Oil Company -- I believe was the name of it that Mr. Halverson was an officer of, had some interest in it -- was, I believe I called it a "paper corporation".

Now, so you won't ask me the next question, why, did I as an officer of LAHODCO think that Apache was a paper corporation whereas LAHODCO may not be.

I answered very simply, that within my own personal knowledge I knew that LAHODCO was not a paper company, I knew it was a very substantially financed corporation and I had no such knowledge as far as Apache was concerned.

Q Well, you say LAHODCO was a substantially financed corporation; can you tell us how it was substantially financed?

A Well, Mr. Allen, I told you -- we told the City Council --

Q You told us that you have no books, no cash, no cash disbursements, no stock and yet you say it was a

very substantially financed corporation. I don't understand you.

A Well, let's not make it something that it isn't. Just a minute, I would like to answer your question.

Q All right.

A LAHODCO was incorporated, it filed an application for a permit to issue stock, it has had meetings, regular and special meetings. It was formed, among other purposes, but primarily with the thought in mind that an application would be made for what we call the LAHODCO lease. The people behind it, within my personal knowledge, are people with substantial wealth, people that have very substantial current income. As a matter of fact, at least three that I personally know of, their income is in excess of three-quarters of a million a year. Now, if you want to call that kind of a corporation a paper corporation, Mr. Allen, you go ahead. I just don't agree with you, that is all.

Q All right. Suppose you win this litigation and you get your lease on the property beyond the breakwater; how can the City enforce any obligation on LAHODCO?

A I will answer that question very simply, Mr. Allen: they won't have to enforce any obligation. We just can't wait to go down and accept our responsibility to drill.

Q There is no bond filed, is there?

A Well, Mr. Allen, I don't know what you are getting at. All I know is that I know what I am talking about and

I am telling you that LAHODCO will drill down there if they are allowed to do so. They are capable of drilling down there, they have the finances to drill down there. What is the use talking about intangibles, if you don't have contractual rights.

Q Everything you have told us, Mr. Arditto, the City has no enforceable rights under this lease against LAHODCO?

A Now, just a minute, Mr. Allen. That is your interpretation. I don't necessarily agree with you on that.

Q All right. What assets does LAHODCO have that the City can look to to enforce any obligation?

A Well, in my opinion -- in the first place, it is an unnecessary question because it is in anticipation of something that "ain't" going to happen.

Secondly, I think the City has certainly very well defined legal rights and that is, the requirement that at least one well be drilled down there, and Mr. Allen, the problem is not whether we will drill down there, the problem is, will they let us drill down there. Mr. Gitelson, of course, has the answer to that in his hands at the present time.

Q Now, you told us that this Apache Oil Company, or whatever the name of it is, that Mr. Halverson organized is a paper corporation.

A I said I thought it was.

Q Didn't they have the same kind of assets you are talking about in regard to LAHODCO?

A Not in my opinion, no. Mr. Allen, I think I explained the difference to you. I may be in error. You have Mr. Halverson here, maybe he can tell you to the contrary, but not based on my investigation.

Q Well, let us assume that you get this lease beyond the breakwater and LAHODCO never drills a well; how is the City going to compel it to do so?

A Well, to me, Mr. Allen, that is like saying if I don't walk over there and pick up a hundred dollar bill that nobody else is claiming, what right do you have to force me to go over there and pick it up, and to me that is exactly what your question is.

THE CHAIRMAN: Are there any other questions?

Mr. Burton.

EXAMINTION

BY ASSEMBLYMAN BURTON

Q Is it not a fact that as we attorneys know, that when you set up this fictitious, or this legal entity, a corporation that no matter whether the income of the stockholders personally is \$100 a year or \$1,000,000 a year, that they themselves have no personal liability and that the Chairman of this Committee was addressing his question

to you that in fact the only legal entity that the City can look to is an entity which at this date, apparently, if I understand your testimony correctly, has no assets of its own; that the individuals involved are not personally responsible. Therefore, their income is, as I understand the law, of no moment and will be of no value to the City if they are ever put in a position where they want to enforce the contractual obligations that the company has incurred?

A Well, Mr. Burton, again as lawyers, we are now talking to each other about contractual rights under documents. In my opinion, the City does have rights to get at assets that you are talking about. In any event, it is of absolutely no moment or concern, because I assure you that as soon and if, as and when LAHODCO is recognized as having a valid lease down there, that there will be at least one well drilled.

Q One possibility concerning me would be that in some instances, as I gather from the testimony, the City Housing Authority people disregarded the efforts of one group because there weren't in fact assets in this corporation; if in one instance one corporation is not given serious consideration because it is in effect a paper corporation, as a matter of fact, there is very little difference between the corporation LAHODCO, I believe it is, and this other so-called paper corporation we have been discussing

and I think that is one of the matters that concerns this Committee.

That, as a matter of law, and as a matter of practical fact, in terms of endorsing the contractual obligations in either of these two corporations, there is no difference between the two, but in one instance one corporation was not given serious consideration because they were in effect a paper corporation, yet, in this instance, the assets are no more existent than they were in the other, and yet they were given consideration. And I think that is one question that has lingered in the minds of this Committee, so that it is of some importance.

A Well, now, as long as we are making speeches, I would like to make one.

If you will read the recommendation that unquestionably you have, you will find out in talking about Apache Oil Company, the reasons given for not recommending Apache were not limited to this question of whether it was a paper corporation or not. It was one of the reasons given.

Down there they had two applications, and in spite of what you may have heard or not heard, Mr. Burton, there was only one real offer to the City of Los Angeles as far as this beyond the breakwater property is concerned. If you will read the testimony in the lawsuit, you will find that Mr. McGruder, who I believe is the Executive Vice President of the General Petroleum Corporation,

testified very clearly that he wouldn't sign the lease that LAHODCO signed, and when I said "he", he was testifying that General Petroleum wouldn't.

Furthermore, the attorney who tried the suit for the taxpayers' representative refused to bring in the CUSS Group, or representatives thereof to testify as to whether they were really serious about this lease. And the judge told the attorney for the plaintiff on four separate, different occasions, "If you do not bring them in here, this Court will presume that their testimony in effect would be the same as General Petroleum." That they weren't -- that is the CUSS Group -- weren't interested in an application.

Now, what I am trying to say to you, sir, is, you can't compare apples and oranges, in the first place. In other words, we had a situation on the one hand beyond the break-water where there was really only one interested party, only one person who ^{would really} come and make a definite offer and say, here it is, we will sign for it.

On the other hand, the other matter that you are talking about, we had several applications, all of whom applied before Apache did, and that was another reason. We were comparing Apache as against Atlantic or Apex, or whatever, and Kadane & Sons, and to me, to compare Apache Corporation with those, again would be like comparing apples and oranges, because I just don't think Apache was in the financial position that these others were. And we had other offers,

that is, we, the Commission had other offers to consider.

Q Without prolonging the matter, I would merely like to state that how many people there are interested in the matter depends somewhat on the conditions upon which they are permitted to participate in the bidding, and there hasn't been any testimony before this Committee yet, so I am not going to prejudge whether or not the conditions for bidding were free and open in both instances. In your case, apparently you represent or stated to us that there was only one interested part, to wit, the group that you are connected with. I am not sure and cannot be sure until I hear the testimony whether the conditions were such as to permit free, thoughtful bidding by the largest number of people. But I would merely like to add as an addenda to the comparison of apples and oranges, that we don't know whether we are comparing apples or oranges or just what we are comparing at this point.

A I don't know what that means, Mr. Burton, but all I have to say to you is this: With the tremendous amount of newspaper publicity that was given to the application of LAHODCO for the Outer Harbor here in this community, for anybody who was interested to say they didn't know about it or they were in any way foreclosed from coming in and bidding is utter nonsense.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Mr. Arditto, let's be realistic about this. You identified a notice that was sent out by the Harbor Department -- I am confusing one lease with another. The one you are talking about was made by the City Council.

A I don't know what you are talking about, Mr. Allen.

Q Let us get back on this same question. I have got a letter right here in front of me from General Petroleum, addressed to the City Council, stating, "Please consider us an applicant."

I have another letter here from the Union Oil Company asking if they could have additional time to submit a proposal. And yet you tell us LAHODCO was the only applicant for that lease.

A I will repeat it, Mr. Allen, and I will rely upon the transcript of the lawsuit that was tried under judicial rules by Judge Gitelson in the case entitled Silvers v. the City of Los Angeles and LAHODCO, and I defy you to read that transcript and show me anything in there that is contrary to my statement, and I sat through the, practically, entire trial.

Q We are not trying that lawsuit. We don't have a transcript.

A I am not so sure we are not.

Q We are not limited to that transcript. Tell me, did you call in representatives of the CUSS group in that trial?

A No. Why should I?

Q You didn't see any more purpose --

A I wasn't making any charges. Other people were making charges. You are a lawyer, Mr. Allen.

THE CHAIRMAN: Mr. Masterson.

EXAMINATION

BY ASSEMBLYMAN MASTERSON:

Q Mr. Arditto, as I understand, LAHODCO has now filed an application for a permit to sell stock of the value of \$230,000, is that your statement?

A It was filed, sir, on or about July 2nd, 1957. I don't want to be held to that exact date.

Q It is pending at this time?

A The permit ran until, I believe I said January 31, '57. We recently applied for an extension of that permit, it was granted and now it extends to January 31, 1959.

Q That is for approximately \$230,000 worth of stock, is that right?

A Well, roughly. I gave the figures this morning. What we were trying to get together, as we stated in an exhibit attached to our application for permit, \$250,000

on the theory that that would be enough to meet our commitments and drill that first well.

Q But none of that stock has as yet been issued nor has the permit been granted as yet?

A The permit has been granted, but the stock has never been issued.

Q Now, you stated that in reference to this lease that LAHODCO has, one clause of the lease has to do with subsidence, is that correct?

A Yes, that is correct.

Q And that is the clause of the lease which the representative of General Petroleum has stated that they would not have signed the lease because of, is that correct?

A No, I didn't state that, Mr. Masterson, and I don't want to state it. I would prefer that this Committee go to the transcript and see the various reasons given by Mr. McGruder.

Q Pardon me. What I am trying to get at, you had previously testified that that was a provision of the lease which you had objected to which the City Attorney had insisted upon and that no other oil company would sign. I think that was your testimony this morning.

A I believe that is correct. That is the exact way, Mr. Masterson, this subsidence provision is contained. It is much broader than the usual one.

Q LAHODCO did sign that lease, is that right?

A Yes. We are novices, we probably will be sorry we signed it.

Q I just wondered if it was a permissible inference, in view of the financial, or lack of financial assets of LAHODCO at this time that the reason General Petroleum and CUSS and no other oil company would sign it is because they actually have assets that the City might reach in the event that they had to enforce this provision of the lease?

A I don't think that necessarily follows, Mr. Masterson, and I will tell you why; subsidence will never occur unless you have producing wells in the oil field, and I don't care who has this lease, if you have producing wells down there you will have enough money, in my opinion, to take care of the subsidence problem.

Q But suppose you didn't have, what assets of LAHODCO could the City reach?

A Well, I can conceive of a situation where there isn't enough money in the world to take care of the subsidence problem down there and you back away from it and give up the lease.

Q That would only be true to the extent that bankruptcy laws would permit you to back away, as you put it.

A That isn't true, no, Mr. Masterson.

Q Because if you were General Petroleum Company, their assets would be behind this, as far as the legal

obligation is concerned, is that no so?

A Not the way I understand the lease, Mr. Master-son. Because, as is common with most oil leases I have read, if you don't do what you are required to do, you just quitclaim the lease and they take it over, and I know under this lease, the subsidence requirements, as I understand it, does not put the City in a position where they can force you to do something if there is a subsidence problem. It merely puts them in a position where they can stop you from drilling if there is a subsidence problem, unless you correct the defect.

ASSEMBLYMAN MASTERSON: Thank you.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Mr. Arditto, did you or Mr. Waters or Mr. Dietrich or any of the three of you together ever file an application with either the Harbor Commission or the City for a lease in any of these parcels without having joined somebody else?

A You limit yourself now to the Harbor Commission?

Q Either the City Council or the Harbor Commission.

A Well, I think the record speaks for itself. I think we always had somebody else on the application.

Q Kadane & Sons or Pauley or Standard Oil or --

A Or Dietrich on the LAHODCO deal.

CHAIRMAN ALLEN: Are there any other questions?

Thank you, Mr. Arditto.

THE WITNESS: I would like to make a bried statement, if I am permitted to do so. I trust this will not incite you to ask me further questions, because I think I have more or less had my chance up here.

I would like to for the record state that in my opinion there is a very serious legal question as to whether the State of California has any jurisdiction over the tidelands owned by the City of Los Angeles. My position -- and I do not make this statement as a positive statement of what the law is. However, I believe that the question has been raised in the light of the Supreme Court decision, United States Supreme Court decision that the State of California and various other tideland states did not own the tidelands, which thereafterwards was cared, I believe, it was by the Submerged Lands Act of 1950; there is raised a very serious question here and it is probably a question that our courts are going to have to decide real soon, and that is this: Do the cities who have received these grants from the Legislature, which as of October, or whatever it was, 1948, the United States Supreme Court said the State didn't have to give -- are these grants, direct grants from the United States Congress under this Submerged Lands Act as distinguished from a grant from the State? I think if you will check it, you will find that to be a

rather intriguing problem. Maybe you have checked it already.

The second statement I have is this: That I trust this proceeding, insofar as it affects LAHODCO, will not have the effect of any way interfering with the decision of the court which is now about to be given on the LAHODCO lease, having been a matter of litigation in October, some approximate three weeks of trial, some 2000 pages of sworn testimony, some 25 depositions of everybody concerned being taken and most of them introduced into the record, some 300 pages of brief having been submitted to the judge on the question of whether LAHODCO was entitled to this lease and having been submitted roughly a month ago, to the best of my knowledge, and now awaiting decision by the court.

I thank you gentlemen for the opportunity of appearing here today. I assure you I welcomed the opportunity and I trust that I have not offended you in any way by any response that I have given. But I think you can well appreciate that I am somewhat deeply concerned and involved in these problems and sometimes you let these personal matters overcome your better judgment, shall we say. Thank you.

CHAIRMAN ALLEN: Thank you, Mr. Arditto, we appreciate your coming.

For your information, we have a copy of a five-page

opinion from the Los Angeles City Attorney, dated October 5, 1956, describing the legal status of these tidelands, and if you like, we will send you a copy of that.

THE WITNESS: You say the Attorney General or the City Attorney?

CHAIRMAN ALLEN: The City Attorney.

THE WITNESS: Is that the opinion the City Attorney's Office rendered to --

CHAIRMAN ALLEN: Addressed to the City Council.

THE WITNESS: Of course, that doesn't deal with the subject matter I brought up. He just assumed in that opinion in effect that the City's title was derived under State act. I think you will find the issue raised a rather interesting one.

CHAIRMAN ALLEN: I just thought you would like this information.

Thank you, Mr. Arditto. You may be excused.

(Witness excused.)

CHAIRMAN ALLEN (Continuing) We will mark that as the next exhibit.

(L.A.City Atty. opinion 10/5/56 marked as exhibit.)

CHAIRMAN ALLEN (Continuing) Mr. Poulson.

NORRIS POULSON,

called as a witness, having been first duly sworn, was examined and testified as follows:

Opinion
LA City
Atty.
10/5/56
EXH.

BY CHAIRMAN ALLEN:

Q Would you give us your full name, please?

A Norris Poulson.

Q Mayor of Los Angeles?

A Mayor of Los Angeles.

Q Before we ask you any questions, perhaps you have a statement you would like to make to the Committee.

A No, I have no statement to make. I am ready for all of your questions.

Q Mr. Poulson, we have been talking about some leasing of tidelands, either under the jurisdiction of the Board of Harbor Commissioners or the City Council. Several parts of it have been mentioned. If you can see that map over to your right, you will see one marked "Beyond the breakwater". It has been described as having been leased to the Los Angeles Harbor Oil Development Company by the City Council. The Outer Harbor parcel has not been leased. The Inner Harbor parcel, for which a lease application was approved by the Harbor Commission, but I understand that action on that has been suspended.

A That's right.

Q And then in another parcel not marked on that map in which a lease has been executed and delivered. It has been described as a five-acre or a 27-acre parcel. You are familiar with them?

A I am now. I have checked on that.

I will explain when the proper time comes how these leases work. There are many others down there, many other oil companies that have leases in the various harbors, as you probably know, and I think I might give you this letter which gives you an idea that it is not a Teapot Dome or anything like that, what you are talking about.

Here is a letter I received on January 30, 1957, from Mr. Bernard Caughlin, the General Manager. "This will refer to your request regarding information as to oil revenues being received by this department.

"At the present time there are 162 operating wells in the Harbor, of which 92 are averaging approximately 17 barrels per day over-all period. However, some of the wells fall as low as 4 1/2 barrels and 7 1/2 barrels per day.

"Of the newer wells in the Harbor, of which 70 have been drilled, the average production is approximately 43 barrels per day.

"The royalties received for the month of November, 1956, amounts to \$91,000, whereas the royalties received for the month of November, 1955, amounted to \$43,000."

I would like to submit that.

Q Thank you.

A It gives you an idea that there are many other wells than the ones you are talking about.

1/30/57
Letter

B. Caughlin
EXH

Q We will mark that as the next exhibit.

(Letter 1/30/57 from Bernard Caughlin marked as exhibit.)

MR. ALLEN (Continuing) Now, Mr. Poulson, we are acquainted with the fact that just east of these parcels marked on the map is the Wilmington Oil Field. The City of Long Beach has recently received information about production in the Wilmington Field that has a figure of something like 780,000,000 barrels of oil produced out of that field to date, and this property immediately adjoins it. The acreages involved in these parcels are quite large, 1350 in the Inner Harbor, 2700 acres in the Outer Harbor and several square miles in the area beyond the breakwater.

The Committee has had available to it not only the leases granted, but letters and correspondence from various oil companies mentioning all sorts of propositions on this. Royalties running from a 30% minimum up to a 50% or maybe more. It indicates there are substantial potentials involved, although everybody states that you can't prove it until you drill for it.

A Well, there have been three dry holes in private property adjacent to this Inner Harbor since I requested that the Harbor Commission drop this negotiation, or any other negotiations.

Q We find that on every one of these parcels a group of three men, Frank Waters, James Arditto and Noah

Dietrich are involved or with some variation between parcels, Mr. Arditto being involved in each of them; that one lease was granted beyond the breakwater, was to a corporation with no assets. That in the five-acre parcel, which the lease was granted, the lease that was approved on the Inner Harbor, the application filed on the Outer Harbor, and in every one of those Mr. Arditto and his associates get what he calls a carried working interest in which he is required to put up no money to operate the lease or pay for a cash bonus. None of the agreements required Mr. Arditto or his associates to perform any services, and it looks quite suspiciously like another Teapot Dome.

A Well, now, in the first place you surely know enough about oil that you can have a very productive oil field and in a very short distance from that you can have dry holes. It doesn't mean you will get oil wells just because it is within proximity of a few miles. The letter which I have submitted refers to the oil wells which we had in operation as of January 30, 1957, and certainly, when we are only getting \$91,000 in a higher royalty than they get on many other areas, that that is not any Teapot Dome.

I will admit that there is a great probability that we will have -- that there is an oil prospect out in the Outer Harbor and I am not going to be scared out of having

it proceed in an orderly fashion with the proper methods of bidding and the like, that we would be discouraged by that as some interests have been trying to scare us out of it.

Q I am not a geologist and I have no personal knowledge of whether oil is there or not, and if we get into that, the Committee can hire a geologist.

A But the question that I bring up right now, and just say this on the matter of fairness, while we are talking about these various oil wells, why don't we bring up everyone who has an oil well down in the Harbor. I think you will find the Atlantic, which Mr. Martin is very much interested in. He has probably more wells than others. They have had many wells through here.

Q Our inquiry is starting out with leasing by the City.

A Well, the City leased these wells, too.

Q In every instance we find a group of Arditto, Dietrich and Waters being carried by somebody else.

A Outside of the five acres there haven't been any of these deals consummated, have they?

Q The five-acre parcel was.

A What is wrong with the five-acre parcel?

Q Do you see anything wrong with it?

A I know of no reason, no. You know, first of all, how it happens, the Harbor Commission receives the bids,

whether it is negotiated or in whatever fashion, and I know I have spoken to Mr. Caughlin and asked him why they didn't have straight sealed bids like we do on all of our other contract work here and he gave me some very plausible reasons of how that wasn't as successful because they always have so many different gadgets. It is hard to get them all on the same basis. That is why that after they get in, they have to negotiate so that they really, so that you could really compare them on the same basis. Now, I am taking his advice on that matter.

Q Have you ever seen the Stanley and Stolz report on the Los Angeles Harbor tidelands?

A I have seen it, yes.

Q Dated October 29, 1956.

A Well, I have a digest of it. I have it at my office, yes.

Q When did it first come to your attention that Mr. Arditto was getting an interest in these various leases?

A Well, as far as Mr. Arditto and Mr. Waters being in the five-acre deal, which is the first one, which is the only deal which was consummated. I will frankly state that when that came through I don't remember of knowing of the individuals. Because, you see, the Harbor Commission accepts these bids and then they make the recommendation to the City Attorney. He draws up a lease,

according to whatever the general specification, and after the City Attorney has given his okay, it is then sent to the City Council and that is where the leases are debated. And all it does after it is passed through those three hands, it comes to me in the form of an ordinance, and certainly, with the unanimous agreement all along the line, I am not the oil expert to say whether it is the good lease or the bad lease.

You know, Los Angeles is a large city and we have many problems here besides oil.

Q Let's get back to the question now. Mr. Arditto has an interest in the Los Angeles Harbor Oil Development Company, which I understand received a lease.

A Yes.

Q On the property beyond the breakwater. When did it first come to your knowledge that Mr. Arditto had an interest in that company?

A Let me say first of all, that there is no -- I served in the Legislature and I know there is no law in the Legislature which prohibits a friend of yours or any member of this Committee from doing business with the State. The same exists here in the City, and certainly that doesn't mean that I would have to look with suspicion on any. I heard first about this -- they have just the same rights that anyone else has.

Q When did you hear about it?

A The first time I heard about it was in September, and by a strange coincidence I was in Washington and I read it in the Wall Street Journal.

Q September of what year?

A '56. Somewhere along in there. The time when they made the application, September or October. I wouldn't know, because, you see, I left for Australia somewhere around the middle of November and I was gone until about the 20th of December, 1956. I went as the official guest of Australia because of the fact that the Olympic Games had been held in Los Angeles and they invited the Mayors of those cities where they had heretofore held the Olympic Games, and I was gone during that time.

Q That was prior to September '56?

A No, that was during 1956.

Q That you made your trip?

A Yes. After.

Q After '56?

A Yes. I read it in the paper the first time.

Q When did you learn that Mr. Arditto had an interest in the five-acre parcel, or the application for it?

A Well, it might sound rather embarrassing, but I didn't know they were interested in these particular parcels. Since this whole fracas has been brought up.

Because they, as I say, it goes through these three groups unanimous, and then Mr. Walter Theil, who has been with the City many years and was the Chief Administrative Officer for former Mayor Bowron, handles the matters and brings it in and brings the digest to me and I look at the digest and I don't go into the individuals on any deal. I do not pay any attention to personalities. I go strictly on the merits of the deal of a contract and the like. I sign leases continuously. I mean, leases and deeds that we have to make with the Department of Water and Power, it is really perfunctory, one of the perfunctory jobs that you do.

Q Do I understand, then, that it was some time after January 1st, 1957, when you discovered that Mr. Arditto --

A Oh, no. I read in the papers about this group on the LAHODCO, as you call it, that they had made application.

Q I mean the five-acre parcel, when you found out they had an interest in that?

A Yes, it was some time after that.

Q After January 1st of '57?

A Yes.

Q How about the lease on the Inner Harbor that was applied for by a group of Standard Oil, Kadane & Sons, Arditto and Waters; the Harbor Commission at one time voted

to approve it. When did you first learn that Mr. Arditto, Mr. Dietrich or Mr. Waters were interested in that application?

A Well, I couldn't tell you the exact date, but I knew that, because I have been interested in seeing the Los Angeles Harbor develop many of the oil resources for the simple reason that that is an autonomous group and they operate it strictly on their own revenues.

As to the exact date, I wouldn't attempt to tell you, but I knew there were several groups in it, including Hancock Oil Company and others. And I talked to, I think it was Lloyd Menveg, and I know I talked to Mr. Caughlin and that is when I asked him -- I said, because they are friends of mine, I asked him about handling it on the basis of sealed bids, and he explained to me, as I said, it sounded very logical why they couldn't operate on that basis.

Q What was the date of this conversation?

A Oh, I don't remember.

Q Approximately.

A I wouldn't even attempt to tell you, because I know it was before.

Q Before what?

A Before they entered into negotiations. They had been talking about it for probably six months or a year. I wouldn't attempt to tell you what date it was. That was

before this came up. It was during the year of '56.

Q Did you have this conversation with Mr. Menveg and Mr. Caughlin --

A Separately.

Q -- before or after you learned of the Stanley and Stolz report?

A I wouldn't attempt to say whether it was before or after.

Q Mr. Poulson, I will show you this Stanley and Stolz report and this recommendation by Stanley and Stolz. They recommend four specific provisions in regard to cash bonus, gross royalty, minimum royalty and net returns, and then they have the statement that all of these things should be fixed and the invitation to bid, except one factor. They state that the amount of the net royalty offered should be a variable on which competitive bidding is based, and that one factor only so that then you could evaluate your respective bids, and I will show you the report opened to Page 8 and ask you if you are familiar with that.

A As I stated, I have had the digest of this and have looked through it. But I want to say again, that the way you have to operate -- this is a little larger City than Los Gatos, remember that, now. We have a lot of activities.

For instance, right now the biggest deal on the entire

Pacific Coast is the awarding of the contract for the concessions at the airport. And all I can do and all I am doing with all the pressure put on is to tell the members of that Commission that the responsibility is upon them to do the job and I don't interfere in any of the details at all. In the first place, you don't have the time. You try and get the men in whom you have confidence in their ability and integrity, and as far as going into the details, I don't go into any of the departments and try to write out and prescribe the details and the manner in which they should be handled. I have to go by the general overall results and by the general idea.

And it was on that basis that I talked to Mr. Caughlin about having this type of a contract and whether it was before or after, frankly I can't tell you.

Q Well, let us put it another way, Mr. Poulson. We understand that you are busy and that you have a lot of other activities to supervise also.

Do you feel in your function as Mayor that you have any interest in getting the best possible returns out of these oil properties or not?

A I think that is a very unfair question. You are inferring something. Of course I do, Mr. Allen, and I defy you to prove anything that I have done that it hasn't been along that line.

I don't like these type of inferences. I didn't come

over here for an inquisition. I came over to answer these questions and I will answer them.

Q You don't recall whether you discussed this Stanley and Stolz report with Mr. Caughlin or Mr. Menveg or not, then?

A On generalities I am sure I have, because that was probably the reason why this came to my attention.

Q When did you first find out that Mr. Arditto, Mr. Dietrich and Mr. Waters were interested in the bidding on the Outer Harbor or the Inner Harbor, either one?

A I don't know. As they were bidding on the Outer Harbor -- I don't know of any. I have heard that they were interested. Naturally, in reading the papers, whether I knew it before, that they had discussed the matter with Mr. Pauley and others about the Outer Harbor, but I know that the Inner Harbor was the one which was up before the Committee and I know that when I heard that they were talking, having a series of stores, I called in all of the interested parties to find out just what was happening, and then is when I started to make an intensive investigation, and shortly after they had made the recommendation that the City Attorney prepare a lease, a Vice Admiral Kingman, who was the Vice Admiral of the Pacific Theater during the second World War, a member of the Commission, came to me and said, now, I voted for this lease because I think it was the best one of any of them that was proposed.

But I don't think you should drill there at all because of the fact of the danger of subsidence. And it was on that basis that I wanted to find out just how much money we were getting out of there. So I wrote Mr. Caughlin and he answered with this letter which showed that we were only getting \$91,000 as royalty. Then I went to the City Council and asked them for an appropriation of \$3,500 to hire geologists to make a study of the entire area as to the possibility of subsidence.

Now, Admiral Kingman was greatly concerned because the Navy people had approached him and they were very much alarmed about any drilling there. Not only that they had their installations in Long Beach, and certainly my friend Bill Grant knows of the problems they have had there. In fact, I heard about them when I was in Congress, about the subsidence of the Navy facilities.

So I had a report by these geologists, Willard Cutler, Samuel Lister and U. S. Grant the 4th, who, incidentally, had done similar work for the Harbor of Long Beach. And they made this report for me issued on April the 15th, 1957, and on that basis I have let the Harbor Commission know that I would be very much opposed to leases from anyone of any kind in the area where we have our facilities.

But I again state that I do think that we should explore the possibilities in the Outer Harbor.

Q But not in the Inner Harbor?

A And not in the Inner Harbor. In fact, I presume you have my letter here of February 12th, 1957, addressed to the Board of Harbor Commissioners.

Q I don't believe so.

A Well, I will leave a copy of it here, and I will read one paragraph. I said about getting the appropriation to find out about this matter of subsidence:

"In view of this and in order to clarify as much as possible this whole involved question of oil leases by the City, I am hereby requesting that your Commission direct your general manager to return this file to you and I am further requesting our Commission upon receipt of it to rescind your instructions to the City Attorney for the granting of such a proposed lease, to return any checks deposited by the maker of this proposal and to order this matter filed."

Q We will mark the letter just identified as the next exhibit.

EXH

(Letter Mayor Poulson 2/12/57 marked as exhibit.)

MR. ALLEN (Continuing) Mr. Poulson, according to our information the lease in the area outside the breakwater was approved by the City Council December 27, 1956, and was signed by you the following day. Do you recall that?

A Are you reading a newspaper account or are you reading the facts of what happened?

Q I want to know what the facts are.

A All right.

Q I don't have the lease in front of me.

A I have a copy of the Resolution here.

"And, therefore, it is hereby resolved that the said lease as proposed by the City Attorney is satisfactory to the City Council and it is hereby approved by this Council.

"Two, that the Mayor of this City is hereby authorized and directed to execute said proposed lease on behalf of the City of Los Angeles and the City Clerk is instructed to attest the same."

That is strictly an administerial act. In fact, when that came to me it was on the 27th and I had just been back. I knew of the individuals and I didn't want to be -- it was just before Christmas time, and I had some relatives who were visiting me from Oregon State, and I asked Mr. Walter Theil, who handles these matters, I said, do I have to sign this, and he contracted Bill Neal and Bill Neal said this is a ministerial act and they demand, so you have to sign it, because all I did was execute it, and I have copies of that.

Q Prior to performing this ministerial act about December 27th, 1956, did you discuss this lease with either Mr. Waters, Mr. Dietrich or Mr. Arditto?

A I don't remember. No.

Q Who did you go to Australia with?

A Who did I go to Australia with?

Q That is right.

A With Mrs. Poulson.

Q Wasn't Mr. Waters along on that same trip?

A No, he wasn't.

Q Didn't he go to Australia?

A No.

Q Did you see Mr. Waters anywhere on that trip you made to Australia?

A No.

Q At the time you signed this lease you just referred to --

A Pardon me. I executed the Resolution, executed. I am not an attorney, but there is a difference between being a party to it and executing it.

THE CHAIRMAN: Let us take a five-minute recess.

(A SHORT RECESS TAKEN.)

CHAIRMAN ALLEN: The meeting will come to order, please.

BY CHAIRMAN ALLEN:

Q Mr. Poulson, you have just handed me a letter dated January 30, 1957, addressed to yourself. We will mark that as the next exhibit.

(Letter marked as exhibit.)

MR. ALLEN (Continuing) Now, getting back to these

Letter
1/30/57
to Mayor

several parcels of land that are marked on that map up there on the board, you have mentioned that in September of 1956 you read in the papers that Mr. Arditto and his group had an interest in the lease beyond the breakwater.

A I think I mentioned that they had made application.

Q That is right.

A Application for it.

Q You first heard about it in the newspapers, is that right?

A Yes.

Q How about these other parcels, when did you first hear that Mr. Arditto, Mr. Waters or Mr. Dietrich were interested in getting leases on those parcels?

A In the Inner Harbor?

Q The Inner Harbor or the Outer Harbor or the five-acre parcel.

A Well, on the five-acre parcel, I told you that it was one of those things, I heard about that since, because when I take it strictly on the basis as these recommendations come through, I never go into the personalities of who we are dealing with at the time.

Remember, we have several leases out there. I would say that I knew about these negotiations and about them talking on the Inner Harbor for some time before, because I think that was a sort of an extended affair, as I

remember it. And they have been negotiating for some time. I know I talked, as I told you before, I talked to Mr. Menveg separately and Mr. Caughlin, and asked them about having this strict basis where it couldn't be any question as to any favoritism shown.

Q Now, at any time during the year 1956 or 1955, and before this publicity started, that I think was around January 1957, prior to that time --

A Yes, sir.

Q -- had you discussed any of these parcels or the leasing of any of them for oil property with either Mr. Arditto or Mr. Dietrich or Mr. Waters?

A I did all my discussion in the detail with Menveg and Caughlin, because they were my representatives. As far as any details about a particular lease, I didn't discuss that with Waters nor Dietrich, because I have had a consistently -- I have said, well, you are on your own, because, as I will admit and very probably so, Frank Waters has been a very good friend of mine for 25 years or more. We used to be seat mates up in the Legislature, and I have know him quite intimately all these years.

Mr. Arditto, I knew him, first got acquainted with him when he was Chief Counsel for the Franchise Tax Board. That was during the time I was in Sacramento as an Assemblyman. Since then, I really have never been what you call very close friends.

Q Well, I understand your statement that during this period prior to January of '57 you never discussed these lease applications with these people?

A I discussed with them, they talked about their interest in leases, you know, in the oil business there, and I have always said, well, listen, you take that up with the Board. That is my stock answer to everyone who comes to see me about a contract, and especially that is true right now when we are having this big concession problem over here. I think you can call in the Board of Public Works or anybody else, any agency which issues these large contracts, and you will find that I never, ever once, have I interfered.

Once when there was a decision, I had to go against my friend for fear of it being called favoritism, and I never wanted to be put in that spot.

Q And I take it that includes --

A That includes everything, yes, sir, right down the line.

CHAIRMAN ALLEN: Are there any questions?

Mr. Miller.

EXAMINATION

BY ASSEMBLYMAN MILLER:

Q Mayor Poulson, I am one member of this Committee that is interested in the future more than I am in the past

with respect to oil leasing, not only for the State-owned lands, but also City-owned lands, to what extent we can have general legislation on it. And I am interested in obtaining your viewpoint on this generality: Number one, do you feel there should be uniformity in oil leasing practices in all of the various commissions and departments of the City Government?

A I don't have that letter with me, but I was told by Mr. Theil, who reminded me of the fact that I notified the Airport Commission, which some of the large, major companies have been interested in slant drilling under, and also the Department of Water and Power and along with the Harbor and others, not to negotiate any leases until we could have some uniform basis.

In that same direction, I might say, Mr. Miller, that shortly after this controversy and all this discussion came up about the oil matters, along in February or March, I appointed a Citizen's Committee of, well, some of the most respected people we had in our area, plus a representative from the majors and from the independents who would make some general recommendations, and after they made their general recommendations, I wrote the City Council asking and suggesting that we begin to formulate a uniform basis.

That has been a year or better, and I think if you read our papers, you will find out that they came up the other

day with what they called an oil czar. I refused, I told them I would refuse to appoint a man under my jurisdiction who would be called an oil czar, because I would take all the criticism whether it was right or wrong.

I had suggested that we have a commission of reputable people who could pass on general policies. Now, they can't let the leases because our Charter prohibits that. They can make general recommendations and then each department has to go through that, and the planning, and there is quite a procedure that you have to follow in getting up to the final leasing of land.

I think that I would like to leave with this Committee -- I will have brought over here a veto message of just this week of a proposed drilling site out here in Paramount Studios where 36% of the area was residential, the drilling would be put on residential property, it hadn't been properly zoned for it.

They had -- the oil companies -- I stated had the monopoly of writing their own boundary lines and the peculiar shape of this district would prove that, as many other districts that are applied for.

I think it is of the utmost importance, Mr. Miller, that we do have some uniform procedure in the manner of handling oil. I don't think we should be scared away, though, by people who have already got drilling sites and who are able to drain out from underneath adjoining

territory, if those people don't take advantage of their rights to drill.

Of course, in the City we have some other problems than you would have on tidelands, because we have got zoning and residential areas and many conflicting interests, but I think it is a very, very important subject.

Q From your extended answer, then, I gather in summary you are in favor of uniformity of all departments of the City in oil leasing practice?

A Positively, and I have written to the departments in that direction.

Q Now, can you obtain that uniformity without any charter amendment, Mr. Mayor?

A I think we can; I think we can, if we can establish a fair procedure that no other body can stand up against the public criticism, which is important, to any deviation from a uniform policy.

Incidentally, we are going to hire -- this is one of the things that we are going to do. It is proposed that we will hire the services of top geologists. We won't put them on the payroll, because the cities don't pay salaries of that kind, and we wouldn't want to give it to a fifth rater, but we will obtain the services from a consultant viewpoint of reputable geologists.

Q Now, my next question is: Are you in favor of a policy that would be uniformly applied in all departments

of the City providing for competitive bidding rather than private, negotiated bidding in the leasing of City-owned oil lands?

A I think that as a public official, we have to recognize that we have to do things differently than a private business. I am told by reliable people that private business can negotiate a lease much better than having the open bidding for the simple reason that there is always the chance of collusion and the like, but from a public official's standpoint, I think that that is our only protection.

ASSEMBLYMAN MILLER: Thank you, Mr. Mayor.

CHAIRMAN ALLEN: Any other questions?

Thank you, Mr. Poulson.

(Witness excused.)

MAYOR POULSON: This is the Citizen's Committee report that I referred to.

CHAIRMAN ALLEN: We will mark that report handed to us by the Mayor as the next exhibit.
(Citizen's Committee Report marked as exhibit.)

LAWRENCE A. HYLAND,

called as a witness, having been first duly sworn, was examined and testified as follows:

Cit. Com.
Report
EXH.

EXAMINATION

BY CHAIRMAN ALLEN:

Q What is your name, sir?

A Lawrence A. Hyland.

Q What is your occupation?

A I am General Manager of the Hughes Aircraft Company.

Q You have been so employed for approximately how long?

A Three years.

Q Are you also a member of the Los Angeles City Harbor Commission?

A I am.

Q How long have you held that position?

A I think it was about August of 1956.

Q Do you have an oil committee on the Harbor Commission?

A Yes.

Q Are you on that committee?

A I am now, and I am inclined to think that when the Harbor Commission was organized, which was -- re-organized two or three months after I became a member, I was put on there for the first time.

Q On January 4, 1957, would it be correct to state you were Chairman of the Land and Leasehold Committee of the Harbor Commission, or the Oil Commission?

A The Oil Commission.

Q And Mr. Menveg was a member of that?

A Yes.

Q I will show you a form letter, not dated, inviting bids from oil companies or offers on land in the Inner Harbor area to be submitted before January 2, 1957, and ask you if you are familiar with that.

A Yes.

Q Do you remember how the date of January 2nd, 1957, came to be picked?

A Only that this will take a little doing so --

Q Go ahead.

A The matter of oil drilling in the Inner Harbor had been up before the Commissioners for some years as I understood it, and the desire of the Harbor for additional funds for construction purposes was such that we wanted to utilize all possible sources of income. So that as a new man, and becoming acquainted with the Harbor, I wanted to know if all of the drilling had been done that could be done. It was stated that this had been a matter of controversy and debate within the Commission for some time and that we would perhaps be in a position to make a decision after receiving a report from some consultants that had been employed.

When that report came in, and bearing in mind the fact that this had been discussed over some period of time,

the report didn't really change our thinking, or what I had gathered the thinking of the Commission was prior to that time.

I decided, that for my part at least, we should go ahead, and I urged that we go ahead and begin to get this thing out of the way.

There were two properties involved of consequence, and I think we agreed among us to take the lesser of them and get the leases on that and then use that as a guide in going further.

Q Do you remember when this form letter was sent out?

A I forgot to include it. This was discussed in a couple of meetings and then I myself was anxious to go forward with it. By that time we had a definitive proposition from the Standard Oil Company, which in my judgment -- and I learned a little about the oil business the hard way -- it looked extremely favorable in the light of all the circumstances.

I think it was Mr. Menveg or Mr. Caughlin that said that, well, now, look, this is the City's business and you don't do things quite as precipitously as you do in ordinary business. Let's take a couple of weeks, write letters to all of the people that have any interest in any of these proceedings or indicated an interest in the past, and give them an opportunity to put in a proposition if

they are interested. And we set the time for the receipt of those letters at the second meeting after the one in which we were talking, which was January 2nd.

Q Do you remember when this invitation or notice was mailed out?

A Well, to the best of my judgment it was mailed out two weeks before whatever the date would be, two weeks before this January 2.

Q Did you feel that that gave the oil companies receiving this notice an adequate time to prepare an offer?

A In the light of all the circumstances, I did, because, as I say, this had been a matter of discussion and controversy. Mr. Caughlin assured me that he had had many letters expressing an interest, that most of them had been of the rather casual type in which somebody was interested in getting a free ride or something. But here we had a proposition from Standard Oil which offered a bonus of \$100,000, plus extremely favorable terms, and I felt that we should take advantage of that opportunity, because sometimes they don't last forever.

Q I will show you a letter dated January 4, addressed to the Board of Harbor Commissioners. It appears to be a photostat of a carbon copy, and I will ask you if you remember such a letter or report?

A Yes, I remember seeing that.

Q And you signed the original of that report?

A I assume that I did, if there is a place for my signature there.

Q We will mark that as the next exhibit.

In response to this invitation, you did receive replied from several oil companies that are described in that letter of January 4th?

A Yes.

Q Now, I will show you two additional letters, one dated December 28, from Wood-Callahan Oil Producers addressed to the Board of Harbor Commissioners and ask you if you saw that about that time?

A Yes, I did.

Q And another from Hancock Oil Company dated January 2, 1957, and ask you if you saw that about that time?

A Yes.

Q Now, the meeting of the oil committee of the Board of Harbor Commissioners, or the Board itself, were either of these companies, Hancock or Wood-Callahan, invited to come in and discuss their proposals?

A No. The meeting, however, was a public meeting, and while I can't be sure of this, I think that there were representatives of those companies there and the proceedings were public. No questions were raised. The Chairman invited comments and none came.

Q Were those people and other oil companies'

representatives called upon to explain their propositions?

A No, except that the Chairman asked if there was any further comment. These people were present and nobody raised his voice.

Q Now, I will show you a file containing letters dated January 2nd from Standard Oil and others, January 4th from Standard Oil and others, January 6th from Standard Oil and others, and I will ask you if that is the Standard Oil proposition you referred to?

A Yes. These are the ones, as I recollect them.

Q That is the ones that you recommended approval of, is that right?

A Yes.

Q Now, you will note that there is a letter there from Standard Oil, Arditto and others, dated January 4th, referring to this \$100,000 cash bonus on execution of the lease.

How did you come to receive that letter; can you tell us anything about that?

A I have no knowledge whatsoever. It was just generally in the records.

Q Do you know whether other oil companies were offered the privilege of revising their offers after January 2nd?

A So far as I know. Let's see, I remember now. The Standard Oil Company had made the offer for the

\$100,000 bonus and the \$100,000 additional guaranteed payment, and it embraced a somewhat smaller amount of land. We felt that it would be, since we wanted to have this all in the lease as we had outlined, we just asked them to take a little more land, which is the reason for the letter in this form.

Q If you will look at the top letter, the one of January 2nd, 1957, you will see that what that letter does, it takes up the additional land up to 1315 acres.

A Yes.

Q The letter of January 4th changes the cash bonus features.

A Well, I didn't recognize that it done that. I just thought that was a confirmation, that the cash bonus that had been spoken about before was included in this specific deal.

Q Now, your report, or the report of the oil company of January 4 recites a number of offers, General Petroleum, Wood-Callahan, Hancock Oil, Standard Oil, Apex, on various types of royalty arrangements.

Could you tell us how you can compare those and arrive at which is the best offer?

A Well, my own way of arriving at it is relatively simple. As I say, I have learned a little bit about the oil business the hard way, and one of the things that I am very convinced of, that any royalty that is based on

a working interest, that is, in which you have to pay a part of the operating costs, isn't worth very much to you. Because sometimes these operating costs get to be very high.

So my own opinion of an oil deal is one in which you get the largest possible cash bonus plus the largest possible percentage of the gross oil production.

And there was another consideration that entered into this, too, which applied to several of the companies. The Mayor at some time previously had talked to us about the primary interest of the Harbor being to be sure that there was no subsidence, that any oil royalty coming to the Harbor was secondary to preserving the Harbor as a public facility for the City.

So the three things, then, that I have in my mind; one, is the agency that gets this contract would be one who could be financially responsible, or financially able to have the oil shut off in the event subsidence comes along.

Number two, the largest possible cash bonus;

And Number three, the largest possible royalty on the gross.

Those three situations seemed to me to be adequately met, and better met by the Standard Oil deal than any of the others that were proposed.

Q Now, had you notified any of the oil companies previous to adopting this report that you were interested

in obtaining those requirements?

A I don't think that we notified them by letter, but I think that in many discussions that had taken place between the oil companies and the officials of the Harbor Board that these things were mentioned. I have no assurance that they were, but they would seem to me to have taken place in the ordinary course of business.

Q Before approving that report had you seen the Stanley and Stolz report?

A Yes, I had.

Q And you recall that the Stanley and Stolz report recommended a type of procedure to be followed by the Board of Harbor Commissioners in the form of royalty and cash bonus, and they only recommended one variable factor.

A That is right.

Q The Board didn't follow that, did it?

A No.

Q Was there any reason why the Board didn't follow it?

A Only that again I called on my experience a little bit. I must say that I have learned a little bit of something out of these proceedings in the past few months, that perhaps you don't do business the same way in public properties that you do in private properties and that you sort of extend yourself a little bit to get bids in order to cover yourself for what otherwise would be a perfectly

sound business proposition. However, it seemed to me that we had a good proposition; that I have always found it very desirable to negotiate deals where it is possible to do so, and I didn't attach at that time quite as much importance to the recommendation for a bid, which in an oil deal can be a very complex thing.

I don't think you can really simplify any oil deal from the standpoint of the best business proposition by trying to confine the only variable to one single item. There are too many factors to be considered, and maybe it is one which gives the best legal protection from adverse publicity, but it doesn't necessarily guarantee the best over-all deal.

Q Would you say this was a negotiated deal?

A Well, it was negotiated to the extent that Standard had come in prior to this time with a proposition which they later confirmed when we sent the invitations out. So let's say it was one in which there was an informal proposition made first and then it was formally confirmed on the same terms as the rest of them when we gave them the two-week period for definitive action.

Q Then this report and offer from Standard and Arditto and so forth was approved by the Harbor Commission?

A I think that we are going to have to examine our semantics a little bit, because by approved, we forwarded the proposition to the City Council, since it had been

determined that there was an interest involved in the Harbor Commission.

Q Before we get to that, I just want to say for the record, I have excerpts from the Minutes from the Board of Harbor Commissioners dated January 9, 1957, that shows that this report was filed and the motion carried to approve this lease.

A We forwarded this to the City Council for their examination, action and probable approval.

Q Well, I will read you part of it and then show you the Minutes.

It states: "Commissioner Hyland moved that the foregoing report and recommendation of the Oil Committee and the General Manager be approved, and in accordance therewith, the City Attorney be instructed to prepare an order granting a proposed lease to Standard Oil Company of California, G. E. Kadane & Sons, Frank J. Waters, James J. Arditto and Noah Dietrich. Said order to be substantially on the same conditions as oil and gas leases granted by the Board, and royalties and bonuses outlined in proposal made by Standard Oil Company of California," et al, which motion was seconded by Commissioner Spires and carried by the following vote, and then the roll call.

Does that meet with your recollection?

A That is what happened.

Q And then after Mr. Tanner found out he was

disqualified and it was referred --

A Either after that or at the time.

Q Or at the same time?

A Yes.

Q Was it the same date?

A I can't be sure.

Q The same Minutes contain in addition to the report you have just referred to from the Oil Committee, a letter from Hancock Oil Company dated January 9, 1957, the same day as these Minutes, stating among other things,

"We know that you will not make a decision upon the various proposals without granting us a hearing, and we therefore respectfully request that before any action is taken by your Honorable Board upon the said proposals, that a time and place may be designated in which we may discuss our proposal with you and your petroleum engineer."

Did you see that?

A I saw the letter. I was not impressed. This thing could go on and on.

Q You did not grant Hancock a hearing?

A No. This thing had been going on for several years, everybody had ducked the issue. I felt that we were going to need the money for the development of the Harbor. We had a good deal with a reliable company and therefore we should take it.

Q And another letter from the same Minutes from Wood-Callahan, same date, stating:

"We want to emphasize our desire and ability to enter into an oil and gas lease on such property on terms agreeable to you, and we consistently believe we can offer terms more advantageous to the Board of Harbor Commissioners than offered by others."

A This I meet with every day in my purchasing operations, the guy that doesn't get the business always is there with the complaint, he could do better if he just got a chance. You have got to put an end to this some time if you ever want to buy anything.

As a matter of fact, the proposition that had been offered to us from Standard Oil, on the basis of my knowledge, or my own somewhat limited experience in the oil business, was an extraordinarily good one. It was a better one than, in my judgment, should have been made, and I think that we should have taken every possible opportunity to consummate the deal.

Q You did give Standard Oil an opportunity to modify their offer?

A No. Not, as you can see, to any unreasonable extent. We did not want any little slivers and bits or pieces of land left over on this thing.

Q I mean on the cash bonus after January 2nd.

A I don't think that it was of any substantial nature. My own understanding of it was that they had the \$100,000 bonus plus the \$100,000 royalty payment, and that had been the same substantially all the way through. Whether the wording was modified slightly, I can't tell you at this time, whether it is true or not. It wasn't of consequence.

Q You said this had been going on for several years.

A It is my understanding that there had been innumerable conversations about this oil proposition long before I came with the Board. And as a matter of fact, the Commissioner, whose place I took, Mr. Cosgrove, said that I should have been guided by his judgment, that this thing has got a lot of dynamite in it and people don't want to act because of the fact that the oil business in California is pretty hot. But it seemed to me that we had all of the evidence necessary to act and that we negotiated a good deal for the Harbor.

Q Now, prior to making this Committee recommendation and prior to the meeting of the Board of Harbor Commissioners of January 9th, did you discuss this deal as accepted with either Mr. Arditto, Mr. Dietrich or Mr. Waters?

A At the time this came up first, I mean formally came before the Board about the time of this report, there

had been some discussion prior to that.

Q You mean the Stanley and Stolz report?

A The Stanley and Stolz report.

Q October 29, 1956?

A I would say that when the matter finally came before the Board, that in all probability, as I recollect, Dietrich and Waters and Arditto probably each one of them may have casually inquired what was the progress of this thing before the Board, and that was the extent of the conversation.

Q And at that time was Mr. Arditto representing either you or the company you were employed by as an attorney?

A He represents the Hughes Aircraft Company on general corporate matters.

Q That is the one that you are employed by?

A That's right.

Q How about Mr. Dietrich, did you have any business relationship with him?

A Yes. Mr. Dietrich was at that time a sort of a general supervisor of all Hughes activities, and as a consequence, I discussed from time to time the matters of the Hughes Aircraft Company with him. However, when this matter came up, I did inquire of Mr. Nordstrom, the Committee Counsel, whether in this case there was any likelihood that there would be an interference of interest or

a conflict of interest. Mr. Nordstrom asked me what the relationship was and I told him. He said that this was no direct business relationship but within the meaning or within the precedence of the City, and that I would be perfectly free to act.

Q And Mr. Dietrich, do I understand correctly, was in a supervisory position of some kind over you?

A Oh, I think that is one of those questions you can answer by both a yes and no. On some things I checked with him, on some others I worked directly with Mr. Hughes. His interests were very broad to the whole company and it was a rather peculiar relationship and I think I could answer your question yes in some respects and no in others.

Q Excerpts from the Minutes of the Board of Harbor Commissioners of January 9, 1957, we will mark as the next exhibit, and also the Stanley and Stolz report. (Minutes and report marked as exhibits.)

MR. ALLEN (Continuing) Now, previous to this particular lease application, which was first approved and then never consummated, there was a lease granted by the Board of Harbor Commissioners on a 27-acre parcel, was there not?

A I am not sure whether this was the 27-acre or the 5-acre parcel. Are you speaking of the Kadane lease?

Q Yes.

A That's right.

Q That was in 1956?

A I think so. This was shortly after I became a member of the Board. The application had been in for some time prior to the time that I came on the Board. The matter had been referred to the Land and Leasehold Committee. That was the first time that I began to get any information about oil matters in the Harbor. I was surprised at the excellence of the deal which the General Manager had negotiated, and after a few cursory questions when the matter came up, why, I voted for it.

Q The five-acre lease did not come, or wasn't first approved by the Oil Committee, was it?

A No. I think it went through the Land and Leasehold Committee for some reason. It may be there was no membership on the Oil Committee at that time.

Q Mr. Hyland, I will show you two documents, first a letter dated September 4, 1956, addressed to Mr. Caughlin, General Manager, Board of Harbor Commissioners, advising that Kadane & Sons associated with James Arditto and Frank J. Waters, each for 12 1/2% interest in this application, and also an excerpt from the Minutes of the Board of Harbor Commissioners, dated October 3, 1956, which includes a Committee report dated September 5, 1956, from the Land and Leasehold Committee recommending approval of this lease application, and ask you to examine those documents, please.

It appears from those documents that the day following the association of Mr. Arditto and Mr. Waters in Kadane & Son's application, that this Committee of the Board of Harbor Commissioners, of which you were not a member, decided to approve the lease application.

Can you tell us anything about that?

A No. My recollection is that, just as I told you, that this was a matter that had been before the Board prior to the time that I became a member and that I did make some inquiries as to the nature of the leases that had been negotiated with them. I was very respectful of them and decided to go along. I was interested, and knew for the first time when this letter came in that I knew Arditto and Waters had some association with Kadane & Sons.

Q Before the meeting of October 3, 1956, when this lease was approved, had you discussed that with either Mr. Arditto, Mr. Waters or Mr. Dietrich?

A Absolutely not.

THE CHAIRMAN: Are there any questions by the Committee? Mr. Miller.

EXAMINATION

By ASSEMBLYMAN MILLER:

Q Mr. Hyland, had you had any leasing experience at all before you took a position on this Board?

A Do you mean in California or anywhere?

Q Anywhere.

A I have some oil interests, percentage interests, in some wells in Mississippi.

Q Did you actually negotiate the leases on those wells yourself?

A No. I am associated with an individual who is a lease hound and he does the work and I take an interest.

Q Had you very strong convictions in your mind before you ever took your position on this Board as to how oil lease negotiations should be conducted, not in a public sense but in a private sense?

A Only to the extent that I have outlined, that if you can get a bonus and a percentage of the gross, you are doing all right for yourself.

Q I probably should have studied a little bit more before I came here. I understand the Standard lease as ultimately approved provided for \$100,000 cash bonus; was that bonus payable out of production?

A No, this was on the line.

Q That was on the line?

A Yes.

Q And another \$100,000 to be paid over a five-year period of time.

A And that was guaranteed.

Q And that was guaranteed and not limited on their

part, is that correct?

A Well, it was reimbursable out of production, but in the event the production did not amount to the \$100,000, the second \$100,000 was to be paid anyway.

Q Did this lease also have a sliding scale royalty?

A Let's see, I think it did. But I can't pull that one out of the air right at the moment.

This I know: It had a percentage of the gross, and a very substantial one.

Q You have testified that this lease appeared very, very attractive to you. What attracted it to you primarily; the amount of royalty comparatively, or the \$100,000 cash bonus?

A I think both. The cash bonus, of course, is money in the bank, and the amount of royalty was most attractive, because knowing the kind of deals that I have been able to get, which have been on a working interest basis and then knowing what happens to me when the monthly bills come in for pumping costs, I was very much impressed with the fact that the City would get a cut right off the top before the expenses had been deducted, and it was a big cut.

Q Prior to your final decision as to approving this negotiated lease, did you call any petroleum engineers or experts in to help you evaluate the lease and have the benefit of professional advice with respect to it?

A No.

Q The Stolz report --

A I think, though, that my answer is a little bit too abrupt. There had been a Geis report which I have read and which indicated that the oil in this area was of a very speculative nature. Also, when I looked at the daily production reports of the various wells in that portion of the Harbor, they were not particularly impressive, so that I didn't think that it was necessary to go beyond the very professional Geis report and also the daily production reports in the Harbor.

Q The Stolz report had been rendered to the Board before you became a member, is that correct?

A No. I think it came shortly before I became a member.

Q The Stolz report, I understand, was April of 1956.

THE CHAIRMAN: October 29, 1956.

THE WITNESS: Just after I became a member.

BY ASSEMBLYMAN MILLER:

Q It was after you became a member. Did you participate in the decision of asking Stolz to make a report to you, to your Board?

A No.

Q When you received the Stolz report did you discuss at length, you and the rest of the Board members or your Subcommittee members, the recommendations in that

report?

A Yes, we did.

Q What were the considerations that made you decide either individually or as a Board to ignore the recommendations of the Stolz report, one, the payment of a substantial cash rental or bonus; two, a gross royalty of a percentage of all oil, gas and other hydrocarbons recovered; three, a minimum annual royalty guarantee; and four, a percentage of the net returns after development of a reasonable exploration development production cost, and I don't see the term here, the recommendation in the report, as I understand it, was that there be one biddable factor, and that bids should be received and awarded on the basis of one single biddable factor.

What made you conclude that this recommendation -- to overrule this recommendation?

A Number one, over a period of years I have become accustomed to receiving all kinds of consultants' reports, and usually in any consultant's report you will find two or three pretty good notions. The thing that did not impress me about the Stolz report was trying to reduce an oil proposition to one single biddable factor, and I didn't think that was worthy of consideration in this particular circumstance, since we had a deal, which, in my judgment, had all of the elements in it necessary to give the best sort of return to the City.

Q Do you recall at this time whether you had the benefit of the knowledge of the State leasing practice on its tidelands, the bill that was enacted in 1955 by the Legislature, commonly known as the Cunningham-Shell Act?

A I don't think I had knowledge of that.

Q Since you indicated that you learned a lot since you participated in making this policy, is it your same feeling now in respect to the advantageousness of negotiated bids over competitive sealed bids, leaving out of it the factor of publicity or the rest of the things that developed from this, but only for the best interests of the City or the State, or whatever it might be; are you still of the opinion that negotiated bids are a better practice in getting the most for the City rather than on competitive bids?

A That is a very difficult question to answer, sir. My own opinion is that if you can get an oil leasing opportunity in an area that is reasonably well proved where all the factors can be reduced down to one, the probability is that you can do better, perhaps, on a bidding proposition. But with all of the variations that are common in the oil business and that have to be taken into account, I am inclined to think that you will probably be better off in the long run on a negotiated basis. I must say that I think the leases that have been negotiated by Mr. Caughlin

down at the Harbor are extremely good leases and that I was very much impressed by them and believe that he has done an extraordinarily able job. I am not sure that they could have been improved by open bids.

Q The negotiation that you speak of, you have these offers from Standard, applications from Standard and from the people that eventually got this lease. Now, I assume that other interested parties were also negotiating with you or telling you what they were willing to do, is that correct?

A As near as I can understand, the other interested parties had been doing a lot of talking but had never reduced any of their talk to writing until such time as we made a specific request to them.

As I understand it, there had been many, many visits made and many conversations regarding this, but nobody had seen fit to come up with a --

Q Oral statements made to the effect, we are willing to pay 50% royalty, 25% royalty, in that nature?

A In that nature, and none of them very impressive. And I think that you have to take the whole context of this operation. The Inner Harbor leases were not of the same nature, for example, as the Wilmington lease. It looked like a marginal field and there was a considerable element of luck, and probably no very large production.

Q After the Standard lease was made to you and

firmed up pretty well, you were fairly well satisfied with it; then did you have any private talks or conversations with any of the other people that had previously showed some interest to say, will you match or better this proposition?

A I do know that there were some conversations during the two-week period. As I understand it, there had been many conversations of people coming into Mr. Caughlin's office, but nothing appeared any better than was contained in the lease.

Q Do you recall in those conversations whether you advised these other people, well, listen, we have an offer already, will you better it?

A I didn't participate in the conversations.

Q Are you familiar with the record made by the Dirke Committee at the request of the Mayor in which Mr. Edwards and Mr. Preston made their reports to the Mayor; have you read that report?

A I think I did at the time.

Q Do you feel that in view of that recommendation and report, that the contents of that report and their recommendations would be wise for the City to adopt, in view of your experience in the past?

A I guess maybe that you have to be extraordinarily cautious and you have to get a little bit of the Pentagon disease when you are dealing in public affairs and

take every possible step to be sure that there are no periods left or commas or dots left out. It is one of the, I guess it is one of the precautions that have to be taken when you are dealing with public affairs and it is probably well justified.

Q I interpret your answer to that, in view of those factors, that you have put out, that in all probability you would recommend and be in accord with the recommendations made in that?

A Generally in accord. I do think there are special occasions which will arise. For example, this affair the Mayor mentioned of drilling on City property where there are zoning rights and that sort of thing, there are so many variables that enter into the picture, I think you must always leave yourself in a position to negotiate and not burn all the bridges in the light of the special situations that arise.

MR. MILLER: That is all.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q You mentioned something, Mr. Hyland, about being in the oil business yourself.

A Yes, in a very small way.

Q You used the term "lease hound".

A That's right. That is the designation that is

applied to the people who go out and negotiate with the farmers and the property owners for rights to drill in their property.

Q Do you do that?

A No. I said I do business with a lease hound who does that sort of thing, and when he gets a lease, then he looks up a half a dozen people to pay the drilling expense and he takes a cut and then the participants pay the drilling expense.

Q And you pay these people who negotiate the leases originally a cut for their services?

A That's right. I must say that the kind of terms that I have been able to get on my leases are substantially less than those that the City is able to get on its.

Q Well, you are in the position of the operator or lessee on your own?

A That's right.

Q Do you make a written agreement with these lease hounds as to what they are going to get?

A Yes. It is usual that the landowner gets an eighth, the lease hound who works this up gets an eighth and the rest of us take an interest in the remainder in proportion to the amount of money we put in.

Q Does the lease hound put up any money for the drilling?

A No.

Q Did you ever find out what position Mr. Arditto, Mr. Dietrich and Mr. Waters had on this Standard Oil - Kadane --

A No. And I don't know to this day. I just assumed that Mr. Arditto and Mr. Waters perhaps took an interest in return for their legal services. The extent of Mr. Dietrich's interest or how it was arrived at, I have no knowledge.

Q You never discussed that with them?

A No.

Q Did you every know it was a carried interest?

A No.

CHAIRMAN ALLEN: Are there any other questions?

Thank you, Mr. Hyland.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN ALLEN: Mr. Callahan.

LESTER CALLAHAN,

called as a witness, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q What is your name, sir?

A Lester Callahan.

Q What is your occupation?

A I am in the oil business.

Q Do you have a business name?

A Wood-Callahan Oil Company; Les-Cal Company and Wood-Callahan Oil Company.

Q There are two companies?

A Yes.

Q I didn't hear the second one.

A Les-Cal.

Q Do you have an office location?

A Yes.

Q Where is that?

A 3801 Long Beach Boulevard, Long Beach, California.

Q Mr. Callahan, how long have you been in the oil business?

A Since 1920.

Q Is Wood-Callahan a corporation?

A A partnership.

Q Has that partnership been in business since 1920?

A No. The partnership has been in business since 1929.

Q In what geographical area do you conduct your operations?

A Southern California only.

Q You are drilling and producing oil at the present time?

A Yes.

Q If you will look at this map, at the area over to your right, you will see a map marked Inner Harbor. Did you submit an offer on that area to the Board of Harbor Commissioners?

A We did.

Q When did it first come to your attention that that was being offered for lease?

A We heard something about it along about in September, that there was some land to be leased, and we sent a man over to the Harbor Commission's Office to find out what land and we never did. On October the 15th we wrote a letter requesting the right to be considered and to let us know what land was to be leased.

Q 1956?

A October, 1956.

Q Was your letter answered?

A Answered on December 26th. They said two weeks, but we got it on the 26th.

Q I will show you a form notice that has previously been identified as Exhibit 18 and I will ask you if that is the kind of notice you received?

A That's right.

Q That is the notice you received?

A Received on December 26th.

Q Is that the first communication you had from the

City of Los Angeles or the Harbor Department about that property in the Inner Harbor?

A No. We had one in October. In answer we wrote them a letter October 15th and we got a letter back requesting \$50 for the rights to negotiate. We mailed them a check for \$50.

Q You did mail the check for \$50?

A In October.

Q Did you get any information back?

A No. We never heard from them again until December the 26th, although we had been there, we had people over there at every meeting. We never were able to talk to anybody but a receptionist.

Q You never talked to Mr. Caughlin?

A Never. We never talked to any member of the Board of the Harbor Commission.

Q Did anything come up in the meetings that you went to that told you what area was going to be leased?

A Not a thing.

Q And you got this December 26th, the day after Christmas, to file a notice --

A On January the 2nd.

Q To file an offer by January the 2nd?

A That's right. And we made a definite offer on January 2nd; also requesting more time to consider it.

Q I will show you a letter dated December 28th,

1956, addressed to the Board of Harbor Commissioners, and ask you if that is the letter you referred to?

A That is the one, yes, sir.

Q Pardon.

A That is the one.

Q Did you get any reply to that?

A We never heard from them.

Q Did anybody at the Harbor Commission ever tell you that they were going to consider that a cash bonus bid was preferable from their point of view than a royalty bid?

A No, sir. Never.

Q None told you that?

A No. We never had a chance to talk to anybody. We were over there on January 2nd and talked to only the receptionist.

Q Was there a meeting of the Harbor Commission on January 2nd?

A That's right. They said this wouldn't be brought up at that time.

Q Who told you that?

A The receptionist. That we would be considered, probably, on January the 9th.

Q I will show you a letter addressed to the Board of Harbor Commissioners, dated January 9th, and ask you if you or your firm sent such a letter?

A That's correct, sir.

Q We will mark the letter he just referred to as the next exhibit.

(Letter 1/9 to Board Harbor Commissioners marked as exhibit.)

MR. ALLEN (Continuing): Was the last letter delivered or mailed?

A This was delivered, I believe. Let's see. This was delivered, I believe.

Q Now, when you wrote this letter of January 9, 1957, to the Board of Harbor Commissioners, did you know that they had already, or their Committee, had already decided to accept the proposition by other people?

A No, we didn't know that.

Q Did you know what proposition had been submitted by other people?

A No.

Q Did anybody tell you that you could revise your original offer?

A No, sir, never did.

Q Did you ever find out what offer was accepted by the Board of Harbor Commissioners?

A Only the letter that we received from the Harbor Commission.

Q What letter was that?

A They wrote us a letter stating that the Standard

Oil and associates had been granted January the 9th.

Q The Board of Harbor --

A Board of Harbor Commissioners, signed by Mr. Ross.

Q Could we see that letter, please?

A Yes, sir. You will notice that they didn't mention the terms of the offer they did accept. We received that letter on, I think, January 11th.

Q Did you make another offer to the --

A No. We dropped it there. We had a meeting, we did draft a letter to the Los Angeles City Council.

Q I have here a group of letters already marked as Exhibit 17, with the offer of the Standard Oil Company, Kadane & Sons, Frank Waters, James Arditto and Noah Dietrich, which provides for a royalty rate of 30% running up to 50% at 250 barrels per well per day and over, with a \$100,000 cash bonus, an additional \$100,000 cash bonus payable out of royalty.

A Who was that letter from?

Q I will show you the letter. I will ask you if you would have been willing to match that offer?

A Yes, we would have.

Q You would have?

A We considered this very seriously when we drafted a letter to the Council protesting our treatment and making another offer, but we didn't mail it or deliver it, either

one.

Q Why didn't you mail you other letter?

A Well, we thought that it was cut and dried.

Q What do you mean "cut and dried"?

A Well, we had been fooling with this several months and it took until December 26th to even get a map of the land.

Q Have you got a copy of the letter you wrote and didn't mail?

A Yes, we have.

Q May I see that, please?

A That was written after a conference of the whole group.

Q This letter states that a cash bonus of \$125,000 plus \$25,000 a year additional cash bonus for 5 years in comparison to \$20,000 offered by the Standard group, and the same sliding scale of royalties. Did I understand from your testimony that you and your associates had approved that offer?

A We would have went to that if we had a chance to negotiate.

Q If you had an opportunity?

A An opportunity to amend and negotiate.

Q You didn't feel there was any opportunity to even submit this?

A Well, we got the letter that the lease had been

granted, what could we do beyond that. The Board of Harbor Commissioners notified us that they had granted the lease to the Standard Oil Company.

Q The letter you have just handed me dated January 21, 1957, addressed to the Los Angeles City Council, which is not signed, we will mark as the next exhibit. I assume you want your file returned. We will arrange with you in a few minutes to get it back to you.

(Letter marked as Exhibit.)

MR. ALLEN (Continuing): Are there any questions by the Committee?

Thank you, Mr. Callahan.

(Witness excused.)

CHAIRMAN ALLEN: Mr. Paul Carver. Mr. Carver will be the last witness. If any of the other witnesses wish to leave, why, they may be excused and we will reconvene at ten o'clock in the morning in the Police Administration Hearing Room just to the south of us.

WENDEL PAUL CARVER,

called as a witness, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Mr. Carver, what is your full name?

A Wendel Paul Carver.

Q And your occupation?

A Manager of Land Department, General Petroleum Corporation.

Q How long have you had that occupation?

A Since January 1st, 1954.

Q I will show you a form of notice from the Harbor Department already identified as Exhibit 18 and ask you if you received such a notice?

A Yes, sir.

Q When did you receive such a notice?

A December 24th.

Q 1956?

A Yes, sir.

Q Did you take any action on it?

A Yes, we did.

Q What was that?

A We prepared and submitted a bid to the Harbor Commissioners for this tract of land that was offered.

Q I will show you a letter dated December 31, 1956, addressed to the Harbor Department signed P. S. McGruder, and ask you if that is the offer you referred to?

A That is the offer I referred to and the transmittal letter than transmits our offer.

Q We will mark that as the next exhibit.

(Letter 12/31/56 to Harbor Dept. marked as exhibit.)

MR. ALLEN (Continuing): Did you take any part in preparing that offer?

A I sat in a meeting where it was discussed and helped draft the form of the lease and dictated the cover letter that you have there as your exhibit.

Q At the time that you prepared that lease were you aware that the Board of Harbor Commissioners was interested in a cash bonus feature in leasing this property?

A No, sir.

Q Did you ever get any answer to this offer?

A None that I have in my file or recall. We were aware, through newspaper articles, that the lease had been awarded to one of the other offerers.

Q Did anybody ever give you an opportunity to increase your offer?

A No, sir.

Q When did you first become aware that this property was being offered for lease?

A When we received this notice dated December 20, 1956, and received by us December 24, 1956, was the first time we knew that it was being leased as of a certain date.

Q Did you feel that you had adequate time to prepare an offer?

A I do not feel that there was sufficient time to give it adequate study and present a bid.

Q The area we have just been talking about is marked

up on that map as the Inner Harbor, is that right?

A Yes, sir.

Q And you will notice there is also marked in that map an area beyond the breakwater.

A Yes, sir.

Q Did you submit an offer on that?

A No, we did not.

Q Did you ever become aware that that property beyond the breakwater was going to be leased?

A Yes, we did.

Q When did you become aware of that?

A I believe on or about December 18. If I may refer to my files here.

Q All right.

A We found by reviewing some Minutes of the City Offices that there had been recommendations made to lease beyond the breakwater property, and that was the first firm indication that we knew that any such plan was under way, and that was on or about December 18th.

Q I show you a letter dated December 6, addressed to the City Council, and I will ask you if that refreshes your recollection as to the date when you learned the land beyond the breakwater was being offered?

A Well, this letter that I signed was written on December 6th and refers to a previous letter that had been mailed by our company under date of August 8 where we were

applying to the Board of Harbor Commissioners to be notified of any leasings of any of the Harbor lands that were being offered to lease, and requesting that we have an opportunity to make an offer, and the reason for the December 6th letter being written, we found some of these Harbor lands that were up, might be up for consideration at some later date would be under the jurisdiction of the Mayor and City Council and that is why this letter was written. We were trying to cover both governing bodies so we would have ample notice of any bidding.

Q When was the next letter you wrote to the City in connection with the land beyond the breakwater?

A I believe December 20, 1956, was the next letter. Do you have a copy of that, Mr. Chairman?

Q Yes.

A You will see there is where we refer to having found in the digest of the City Council Minutes of December 18 a report regarding the leasing of the Outer Harbor lands.

Q Now, your letter of December 20, 1956, refers to the proposed lease to Los Angeles Harbor Oil Development Company and then states:

"We represent that we are at present the lessee of harbor lands in the City of Los Angeles; that we are financially established and thoroughly experienced in the development of oil and gas on tidelands. We therefore represent that if we are

permitted to negotiate with the City we are in a position to offer a higher royalty and substantial advance bonus to the City."

Did anybody take you up on that offer?

A No, sir.

Q Did you ever discuss this with Councilman Timberlake?

A I did not, sir.

Q Do you know whether anybody from your company did?

A I do not know of anyone in our company who did.

Q I will show you a letter dated December 24, and ask you if you can identify that also as bearing Mr. P. S. McGruder's signature?

A That is Mr. McGruder's signature and I recall having seen the letter.

Q Do I understand that you did not get any lease on this?

A We did not.

Q Do you have any more correspondence with the City in regard to the property beyond the breakwater?

A Yes. At a later date.

Q Mark those last letters as the next exhibit.
(Letters Dec. 20 and 24, 1956, marked as exhibits.)

A On December 28th, a letter from P. S. McGruder, Executive Vice President, to the Honorable Mayor and City Council withdrawing our application.

Q May I see that letter?

A Yes, sir.

Q Can you tell us why this letter of December 28th was written to the City?

A I cannot tell you why, sir. I did not dictate or sign it. That is Mr. McGruder's signature and Mr. Collins dictated it there, in the margin, as you will see.

Q Well, there is also attached a letter addressed to Councilman Timberlake of the same date. Do I understand that letter was sent also?

A Yes, sir, to the best of my knowledge.

Q We will mark those as the next exhibit, and if you wish these returned to you, why, we will take care of that, too.

(Letter 12/28 from P. S. McGruder to City; letter 12/28 to Councilman Timberlake marked as exhibit.)

MR. ALLEN (Continuing): Any questions by the Committee?
Mr. Masterson.

EXAMINATION (Continuing)

BY ASSEMBLYMAN MASTERSON:

Q Mr. Carver, you say that in August of 1956 you wrote the Harbor Commission asking to be advised of any lands that were going to be put up for lease, is that correct?

A That is correct, within the Los Angeles Harbor

both inside and outside the breakwater; yes, sir.

Q Was there any reply from the Harbor Commission other than the form notice that they sent on December 20th and which you testified was received December 24th?

A That is the only one I know of or have in my files.

MR. MASTERSON: Thank you.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q Was the withdrawal that you sent just relative to the lands beyond the breakwater?

A Yes, sir.

Q It didn't concern the other parcel at all?

A No, it did not.

Q Do you have any knowledge why that was sent?

A No.

Q I haven't seen the letter.

A No, I do not have that knowledge.

CHAIRMAN ALLEN: Any other questions?

All right, thank you, Mr. Carver. You may be excused.

(Witness excused.)

CHAIRMAN ALLEN: We will take a recess until ten o'clock tomorrow morning at the Main Hearing Room in the Police Administration Building.

(HEARING RECESSED UNTIL 10:00 A.M. 1/24/58.)

LOS ANGELES, CALIFORNIA, FRIDAY, JANUARY 24, 1958, 10:00 A. M.

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CHAIRMAN ALLEN: The meeting will please come to order. This is a continuation of the Assembly Judiciary Subcommittee on Tidelands which started yesterday in the State Building.

There was some delay this morning because in this room the City of Los Angeles has other uses early in the morning.

I would like to introduce the members of the Committee. Starting on my right, Assemblyman Allen Miller from San Fernando.

Assemblyman George Crawford, San Diego.

Assemblyman Howard Thelin, Glendale.

At the left table, Assemblyman Bruce Sumner, Santa Ana.

Assemblyman Louis Franics from San Mateo.

Assemblyman Bill Grant from Long Beach. Mr. Grant is not a member of the Judiciary Committee, but we are very happy to have him join us in attending this hearing.

Is Mr. Shuey present?

MR. SHUEY: Yes, sir.

CHAIRMAN ALLEN: Will you come forward, sir. Raise your right hand and be sworn.

LAWRENCE R. SHUEY,
called as a witness by the Committee, having been first
duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Your full name, please.

A Lawrence R. Shuey.

Q And your occupation?

A Assistant Division Land Man for the Texas Company.

Q Now, Mr. Shuey, the Texas Company is engaged in the oil business, I take it.

A That is correct.

Q And is that an integrated company?

A No. The Texas Company is one of the major oil companies engaged in the marketing of petroleum products.

Q And does the Texas Company engage in production, drilling?

A Yes, sir.

Q And how long have you been with the Texas Company?

A Approximately 29 years.

Q I will show you a formal notice from the Los Angeles Harbor Department previously identified as Exhibit 18. I will ask you if you have ever seen such a notice.

A Yes, sir, I have.

Q When?

A On December the 27th. This notice was received in our Los Angeles Basin District Office on December the 24th. It bore a date of December the 20th. It was

transmitted to the Division Office of the Land Department by our District Office on December the 27th.

Q When did you first see it?

A I first saw this letter on December the 27th.

Q And did you do anything about this invitation?

A Just this: It was discussed and, in view of the fact that the least proposal had to be submitted by January the 2nd at 12 o'clock noon, and inasmuch as January the 1st was a legal holiday, there was only four and a half days within which to submit a lease proposal. There was obviously little time within which to do that, to make an adequate lease proposal.

Q Mr. Shuey, this invitation has previously been identified as calling for proposals on the area marked on that map as the Inner Harbor. Were you supplied with a map of the area that was to be leased?

A Yes, sir. The map was attached to this letter.

Q And previous to receiving this letter and map had you known that this area was going to be leased for oil?

A We knew this much about it: We didn't know the exact boundaries of the area. We knew that some lands under the jurisdiction of the Board of Harbor Commissioners was being discussed, might be leased, but we were not informed or did not know exactly what lands were being put up for leasing.

Q Did you, previous to receiving that letter, try to

find out what lands were being put up for leasing?

A Yes. On several instances we contacted the various members of the Board of Harbor Commissioners.

Q And what did you find out?

A We found out that approximately certain lands in the West Basin Area had been under discussion by the Board with the Standard Oil Company, and we had been informed by the time that we got there that negotiations had progressed to the extent where Standard Oil Company et al were being awarded a lease by the Board of Harbor Commissioners on lands which, according to this map, consisted of 1350 acres.

Q And when were you told that the negotiations had progressed to the point that Standard et al were getting the lease?

A I would like to review my file. On January the 3rd, 1957. We were informed by the Board of Harbor Commissioners that they were going to award a lease to the Standard Oil Company for 1350 acres.

Q Prior to receiving this letter that I believe you said you first saw on December 27th, 1956, had you had discussions with members of the Board of Harbor Commissioners?

A Yes. We had from this standpoint: We, of course, are always interested in the prospectiveness of any lands that may be leased, and we were merely conducting inquiries to ascertain what lands might, in the future, be leased by the Board of Harbor Commissioners or the City of Los Angeles,

and if such lands were being placed for bidding, or were going to be leased in any manner, why naturally we were interested in taking a look at them.

Q And did the Board of Harbor Commissioners or any members of the staff tell you they were leasing this property?

A We had been informed by members of our District Lands Office, who had discussed this matter with Mr. Bernard Caughlin, of the Board of Harbor Commissioners, that as to this particular 1350 acres the negotiations had progressed to the point where that land was being awarded to the Standard Oil Company et al.

Q Mr. Caughlin?

A That's right.

Q Made that statement to you --

A No, to --

Q -- or somebody --

A No. To a member of our District Land Office. I did not discuss this with Mr. Caughlin.

Q And was that statement made before this invitation of December that you received December 27th was sent out?

A No. According to my files negotiations had progressed to the point where the Board of Harbor Commissioners had informed our company's representatives that negotiations had progressed to the point of where the land had, while it had not been leased, had practically been committed

to the Standard Oil Company.

Q Well, when was this statement made?

A This statement was made very shortly prior to December the 20th.

Q Who made this statement?

A Our representatives from the Los Angeles Office discussed this with Mr. Bernard Caughlin, and also members of his staff.

Q And then it was after this conversation, discussion with Mr. Caughlin, that you got this notice, invitation to make an offer?

A That is correct. Well, to bring your Committee up to date, the Texas Company, by a letter dated August the 4th, 1956, advised the Board of Harbor Commissioners that we wished to be placed on their mailing list in the event any lands under the control of the Board of Harbor Commissioners were placed for leasing or for bidding. And that we would like to be advised of terms and conditions under which leases might be awarded.

Then on August the 22nd, we received a reply from the secretary of the Board of Harbor Commissioners directed to Lloyd A. Menveg, Chairman, wherein Mr. Menveg was advised that the Texas Company's letter had been received, and referring our letter to Mr. Menveg's Committee, the Land and Leasehold Committee, for its recommendation.

Those were the only communications in reference to this

matter until we received this letter of December the 24th notifying us that the Board of Harbor Commissioners were going to accept lease proposals.

Q Now, do your notes show Mr. Caughlin made this statement, too, about this matter going to Standard Oil Company et al?

A Mr. K. R. Hazard, of our Long Beach Office, discussed this matter with Mr. Bernard Caughlin.

Q When you got this notice that the property was going to be offered for lease, did you do anything about it?

A It was preliminarily discussed, but obviously, in view of the fact that only four and a half days were permitted within which to submit a lease proposal, there was not sufficient time to take any action on the matter.

(Assemblyman Richard T. Hanna Joins the Committee.)

Q I take it then you took no action after receiving that?

A That is correct.

Q And I take it from your first letter of August 4, 1956, that you were interested in this property?

A Not this specific property. By this letter we were interested in any property that might be placed for leasing by the Board of Harbor Commissioners. Any lands under its jurisdiction.

Q Could you give us an idea of how long you would consider necessary for your purposes to submit an intelligent

proposal?

A Well, that would be hard to say. In some cases, why, 30 days might be considered sufficient. Due to various types of property and their location, and the facilities located thereon, why, 60 days might be considered reasonable. That is a hard question to answer. It would depend on circumstances.

CHAIRMAN ALLEN: Any questions by the Committee?

ASSEMBLYMAN SUMNER: I have one.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q Mr. Shuey, have you ever conducted similar negotiations, or conducted negotiations with public bodies for the leasing of oil properties through your company?

A No, sir.

Q Do you know what the usual practice is, or what did you anticipate? That is what I am trying to get at. What did you anticipate would be the procedure followed by the Board of Harbor Commissioners?

A Well, that is a hard question to answer because the Board of Harbor Commissioners, we knew, had the right to lease its property through the process of negotiation.

Also, if it elected to do so, it could do so through the means of sealed competitive bidding, similar to the

method employed by the State Lands Commission of the State of California.

Q Well, you have conducted negotiations with the State of California?

A No, I have not conducted negotiations with the State of California. I am familiar with their practices.

Q I see. And how do their practices differ from those used by the City of Los Angeles in this case?

A Well, the State of California, through the State Lands Commission, their tidelands properties are offered for leasing through the medium of sealed competitive bidding.

Q How much notice is given on these bids?

A Usually 60 days.

Q Are you notified as a prospective party that might be interested that 60 days from the date, for example, they will take bids? Is that the procedure?

A That is correct. The State issues invitations to lease the lands by invitation.

Q How about, have you ever dealt with the City of Long Beach, or any other municipality? Has your company ever, on negotiating for leases?

A Yes, the Texas Company has negotiated for leases with the City of Long Beach.

Q And what is their practice in obtaining bids?

A Well, I can't speak for the entire City of Long Beach, because they may handle one property differently from

another. But in one particular instance, why, we obtained a lease through the medium of competitive bidding.

Q And how much notice was given on those?

A Well, inasmuch as I was not directly involved in that particular matter, I don't recall.

Q Well, can you give us an approximation?

A No, I can't do that. But it would certainly be, it was certainly in excess of four and a half days.

Q And then would it be correct to state that when you sent your letter in August you were anticipating a similar type treatment to what you get from the State of California, or from the City of Long Beach, from the Harbor Commission, is that correct?

A That is correct. But at least sufficient notice to enable us to adequately evaluate the property from the standpoint of submitting a bid.

Q What prompted you to send the letter in August?

A Just that we were aware, through newspaper notices, and articles that appeared in oil magazines, that certain properties might at a later date be placed for leasing by the Board of Harbor Commissioners, or the City of Los Angeles through its City Council.

Q Had you at any date prior to August sent such a request?

A No, sir.

ASSEMBLYMAN SUMNER: No further questions.

CHAIRMAN ALLEN: I would like to introduce Mr. Hanna, Assemblyman from Orange County, at this time on the right.

Any more questions by the Committee? All right, thank you, Mr. Shuey. You may be excused.

(Witness excused.)

CHAIRMAN ALLEN (Continuing) Is Mr. Baptie present?

ALBERT S. BAPTIE,

called as a witness by the Committee, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q And your full name?

A Albert S. Baptie.

Q Your occupation?

A Petroleum engineer.

Q And by whom are you employed?

A Wood-Callahan Oil Company.

Q And for how long has that employment continued?

A Since August of 1956. I have been employed by them since August, 1956.

Q All right. And were you in the oil business prior to that time?

A I have been.

Q All right. Were you present yesterday when Mr. Callahan testified?

A I was.

Q And are you familiar with the efforts of Wood-Callahan to obtain a lease on the Inner Harbor area that Mr. Callahan described?

A I am.

Q Did you attend any meetings, or go to the Board of Harbor Commissioners' Office of the City of Los Angeles at any time in connection with those efforts?

A I did.

Q Would you tell us what happened?

A I accompanied Mr. Wood and Mr. Frazer when the letter of December 28 presenting our bid was delivered to the Harbor Board's Office in San Pedro.

Q All right.

A We asked if bids would be opened following twelve noon on that day. The secretary said she did not know. We asked if we could be present when the bids were opened. We were told that she did not think so.

Q Now, this visit was on January 2nd?

A This visit was on January 2nd.

Q 1957?

A Right.

Q Go ahead.

A I went back to the meeting of the Harbor Commission on that afternoon and happened to obtain a copy of the agenda for that day's meeting.

Q Yes?

A There was nothing on it concerning the bids for the lands in question. I sat through the meeting and no discussion was given to the matter of the bids in question.

I asked one of the secretaries, or the reporter, following the meeting, when she thought the bids would be opened and discussed in the meeting. She said they would not be discussed before the meeting of January 9th, and they would not know until later in that week what the agenda for that meeting was.

We then prepared and directed our letter of January 9th, which was referred to and admitted to your exhibits. I delivered that letter in person to the Secretary of the Harbor Board prior to the two P.M. meeting in the City Hall on January 9th.

The Board, as your records will show, made the report of this Oil Committee and said that -- or a motion was made and carried that the offer of Standard, and others, be approved in the decision. I have made an effort to talk to someone in the Harbor Board Committee, or a secretary, before the meeting, and I was told the matter would be brought up when the meeting formally convened at two o'clock.

Following the passing of the Resolution the Secretary read letters from our company and from Hancock Oil Company. No discussion was invited from the audience, and they went on to the next item of the agenda without asking anyone

present to present any comments or questions.

Q Now, at either of these meetings of the Board of Harbor Commissioners, January 2nd or January 9th of 1957, that you have just described, was any invitation made during the meeting to members of the audience to speak?

A There was none.

Q You were present throughout the meetings?

A Right.

Q At any time did you discuss your application for this Inner Harbor property with any members of the Board of Harbor Commissioners?

A No, sir.

Q Or Mr. Caughlin?

A No, sir.

CHAIRMAN ALLEN: Any questions?

ASSEMBLYMAN SUMNER: I have one.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q Just for clarification, you say you sat through the meeting on the 2nd?

A Right.

Q And was there any action taken relative to the leasing?

A There was an item on the agenda concerning the lease with the Los Angeles Harbor Development Company.

Q Well, you are speaking of the agenda. But I am asking, during the meeting, while you were sitting there, was there anything taken up relative to the --

A To the lease?

Q To the leasing?

A With the Harbor Development Company?

Q Yes.

A I frankly don't recall. No discussion whatever as to the bids that had been asked for and received that day.

Q Well, were you there during the entire meeting?

A I was.

Q But you don't recall hearing anything relative to the leasing of this particular piece of property, or the Harbor Development Company, the LAHADCO?

A I believe the item simply recounted, and it is in the Minutes, I have since seen it, of that meeting of January 2nd, that the Los Angeles Harbor Development Company had --

CHAIRMAN ALLEN: You mean Standard Oil, Kadane & Sons, or --

THE WITNESS: No. I mean the Los Angeles Harbor oil; developing beyond the breakwater.

CHAIRMAN ALLEN: You are talking about the City Council

meeting?

THE WITNESS: That's right.

CHAIRMAN ALLEN: I'm sorry.

THE WITNESS: And that action was reported in the meeting of January 2nd.

ASSEMBLYMAN SUMNER: (Q) In other words, your testimony is that you were at the meeting, you didn't hear anything about it, but the Minutes reflected that some action was taken on it, is that right?

A On the Los Angeles Harbor Oil Development lease, right.

Q And you, however, have no recollection yourself of having heard anything relative to the Los Angeles Harbor Oil Development lease?

A I had not heard anything about it prior to that time.

Q And you didn't hear anything about it at that meeting, is that right?

A I did, yes. May I refer to my notes?

Q Certainly.

CHAIRMAN ALLEN: If I can interrupt for a moment, Mr. Sumner, you are talking about a meeting of the City Council, or the Board of Harbor Commissioners?

THE WITNESS: No.

ASSEMBLYMAN SUMNER: He is talking about the Harbor Commissioners, I think.

THE WITNESS: I am talking about the meeting of the Board of Harbor Commissioners in San Pedro on January 2nd at two P.M. Two hours after the deadline of the bids that were invited in the letter of December 20th, which we received on December 26th. And we had delivered our offer to the Board between eleven and twelve o'clock on January 2nd.

CHAIRMAN ALLEN: I just want to keep the record straight. Now, the area you were interested in is marked upon this map as the Inner Harbor?

THE WITNESS: Right.

CHAIRMAN ALLEN: Now, the records we have that have been produced so far indicate that the Los Angeles Harbor Oil Development Company made a bid on the property described in that map as beyond the breakwater, which is processed through the City Council.

THE WITNESS: Right.

CHAIRMAN ALLEN: All right. Go ahead.

THE WITNESS: Now, I attended the meeting at two P.M. on January 2nd. I noticed a number of copies of this agenda, which is headed "Program of Meeting of Board of Harbor Commissioners, Wednesday, January 2nd, 1957, San Pedro."

There are five items on this agenda. Item 6 was, "Communication from City Clerk Advising of Action of Council in Adopting Resolution Approving Oil and Gas Lease between

City and the Los Angeles Harbor Oil Development Company respecting tide and submerged lands lying outside and adjacent to Government breakwater at San Pedro, authorizing Mayor to execute said lease and City Clerk to attest same, and instructing City Attorney to prepare and submit for adoption by Council, after discussion of lease on behalf of this City, an ordinance approving lease as executed by all parties thereto, and including in this discussion as to the legality of a valid lease binding upon said parties."

Now, I didn't know qnything about this prior to my attending this meeting. My recollection is that the Board instructed the secretary to ~~so~~ note the receipt of this communication and file it. But I wasn't interested particularly in that development, or negotiation, and realized that the handling of it would be in the Minutes accessible to anyone who wished to acquaint himself with the action.

I was there, as I have already said, to see if there was any discussion given to the bids which had been received that morning. There was no discussion given nor mention made of those bids.

ASSEMBLYMAN SUMNER: (Q) And that was relative to the land in the Inner Harbor?

A Right.

Q And that was the land on which you had submitted your bid?

A Right.

ASSEMBLYMAN HANNA: Mr. Chairman?

THE CHAIRMAN: Mr. Hanna.

EXAMINATION (Continuing)

BY ASSEMBLYMAN HANNA:

Q Just one question. Did I understand that you received the invitation to bid on December 26th of 1957?

A Right.

Q And the deadline was January 2nd?

A Twelve noon, January 2nd.

Q So it was about a seven-day period in there in which you could get your bids in, is that right?

A That's right, with the weekend and the New Year's holiday.

Q All in there together?

A Yes.

ASSEMBLYMAN HANNA: I just wanted to make that clear. I wanted to be sure I had that right.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Did you ever attempt to discuss the leasing of that Inner Harbor area with Mr. Caughlin?

A No, sir.

Q Or your bid?

A No, sir. Not after what I found out at the meeting on January 2nd.

Q How about before then?

A No. We were not quite certain what they meant by negotiated bid, and asked the secretary if there would be any possibility for discussion, and she said she didn't know.

Q When did you ask the secretary this?

A When we left the bid there.

Q January 2nd, 1957?

A Right.

Q Did you get a map with this invitation to bid?

A We did.

Q Were you informed that the members of the Board of Harbor Commissioners were interested in a cash bonus feature of the bidding?

A We weren't informed anything.

CHAIRMAN ALLEN: Any questions? All right, thank you, Mr. Baptie. You will be excused.

(Witness excused.)

CHAIRMAN ALLEN (Continuing) Mr. Cormany?

RALPH CORMANY,

called as a witness by the Committee, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Please be seated. Your full name, sir?

A My name is Ralph Cormany.

Q Your occupation?

A Manager of the Land Department, Hancock Oil Company.

Q And Hancock, I take it, is an integrated company?

A Yes.

Q And how long have you been at that position with Hancock?

A I came with Hancock January 1st, 1956; two years ago.

Q '56? And had you been in the oil business prior to that?

A Yes.

Q I show you an invitation to bid that was previously identified as Exhibit 18, just discussed by the previous witnesses, and I will ask you if you ever saw such an invitation?

A Yes.

Q When did you receive it?

A I went down to the Los Angeles -- I mean, yes, Los Angeles Harbor Department Offices and picked up a copy of that. We were not mailed a copy.

Q When did you get it?

A It was after -- it was Christmas week. I don't know the exact date.

Q Around December 25th, 1956?

A Yes, some time between that and the first.

Q And I will show you two letters from Hancock Oil Company addressed to the Board of Harbor Commissioners, City of Los Angeles, the first one dated January 2, 1957, the second dated January 9, 1957, and ask you if those are copies of the original letters that were sent by the Hancock Oil Company about that time?

A Yes.

Q May I see them, please? Am I correct in stating that the first letter, January 2, 1957, was the proposal made by Hancock on this Inner Harbor property?

A Yes.

Q And did you have any conversation around that time with either the staff or members of the Board of the Harbor Commissioners?

A Prior to submitting the bid I had attempted to ascertain exactly what the invitation to bid meant. In other words, there was indications that negotiations could or might be involved. And I talked with Mr. Caughlin, I believe, relative to that. And he told me that was the procedure used by the Harbor Department, and had been used historically and would be used in this instance. We submitted our bid with that in mind.

Q Do I gather, this was just a basis for negotiating --

A Yes, sir, that we would be given an opportunity to discuss it, to explain it, to make sure that it was thoroughly understood, and that all people involved with the Harbor Department would know exactly what we were bidding.

Q Was there anything said about whether you would be given an opportunity to discuss this proposal of yours?

A No. There was no indication or no date set, or no idea given to me when I would be called upon to explain it or to negotiate it.

Q Did Mr. Caughlin say anything to you about the Board of Harbor Commissioners being interested in a cash bonus feature on the proposal?

A No. No.

Q I see that your proposal is somewhat similar to that used by the Long Beach Oil Development Company in Richfield on the Long Beach tidelands in that the Royalty offer is set up --

A Basically, that is what it is, Mr. Allen.

Q Did you discuss that with Mr. Caughlin?

A No.

Q Did he give you any indication as to how the Board of Harbor Commissioners would want the royalties computed or figured?

A No. The only indications that I have ever had in the few conversations I had with them were that the Harbor Department thought that the existing leases that they had with their sliding scale royalty were good leases and that anything along those lines would probably be acceptable. We felt that our bid as indicated by our letter of January the 9th was a better bid.

Q Did Mr. Caughlin mention an offer from Standard Oil, or a group associated with Standard Oil?

A No, Mr. Caughlin never mentioned it.

Q This letter of January 9, 1957, that you have just identified, when was that given to the Harbor Commission?

A I delivered that to Mr. Rouse, I believe the gentleman's name was, in the Los Angeles Office the day of the 9th.

Q The office of the Harbor Commission?

A Yes.

Q In the morning or afternoon?

A Morning.

Q Was that before the meeting of the Board that day?

A Yes.

Q Did you get any answer to that letter?

A Yes, we did.

Q Have you got that with you?

(Witness hands document to Chairman Allen.)

CHAIRMAN ALLEN: I have here a letter dated January 9, addressed to Hancock Oil Company, signed by Mr. Rouse. We will mark that as the next exhibit. Would you like this returned to you?

A Yes, I would.

CHAIRMAN ALLEN: We will see that it is. A letter of January 9 from the Hancock Oil Company addressed to the Harbor Commission we will mark as an exhibit also.

(Letters of January 9th marked as exhibits.)

Q Do I understand from these letters that you were not taken up on your offer to negotiate?

A No, we weren't. I attempted during the week of January 2 to 9 to talk to somebody relative to a bid. But I was unable to.

Q You weren't able to talk to any members of the Board of Harbor Commissioners?

A I was unable, for example, in one instance, I reached Mr. Menveg by telephone. I believe he was Chairman of the Board at that time. And I asked if we could set an hour or day when I could talk to him about this, or with the Board, to explain it. And he outlined several activities that he was involved in at that particular time and was not available for me to talk to.

Q And did you try to contact other members of the Board also?

A Mr. Menveg was the only member of the Board that

I actually tried to contact. But I made a visit to the office and Mr. Caughlin was not in, so I was unable to talk to him. And that is the reason for our letter of the 9th to set out that we had made these attempts, and that we did want to, prior to the awarding of the bid, or the offer, or of the lease, to have these conversations.

Q Did you attend the meetings of the Harbor Commission of January 2nd and January 9th, 1957?

A Yes, I did.

Q At those meetings were you asked to discuss your offer at all?

A At the meeting of January 2 our particular -- or the area in which we were involved was not even discussed, so there was no occasion there to do it.

The meeting of the 9th, when the matter was passed by the Board, I believe prior to the actual voting there was a statement made if there were any questions, or something along those lines, and we did not choose to say anything, feeling that our letter of the 9th was adequate to handle our situation.

Q Was your letter discussed at that meeting of the Harbor Commissioners?

A Our letter was read. It was not discussed, to my knowledge.

Q Did the Harbor Commissioners ask you any questions about it?

A No.

CHAIRMAN ALLEN: Any questions?

ASSEMBLYMAN MILLER: Yes, Mr. Chairman.

CHAIRMAN ALLEN: Mr. Miller.

EXAMINATION (Continuing)

BY ASSEMBLYMAN MILLER:

Q Mr. Cormany, the area that you were interested in on bidding or negotiating the lease was the same area of property that Standard eventually got the lease on, is that correct?

A It is the same -- it is the Inner Harbor area, Mr. Miller. I don't know that they were awarded the lease, but it is the same area that they bid on.

Q Are you familiar with the lease that was eventually negotiated and entered into by the Harbor Commissioners with Standard?

A No, sir.

Q The terms of it?

A No, sir, except that I was told by Mr. Rouse that it was probably on the same terms as existing leases with the Harbor Commission.

Q You have introduced into evidence your offer of January the 9th for a lease, and although it went into evidence, Mr. Chairman, I think that the members ought to know what the contents of the terms of that offer were to compare with the Standard lease.

A Our offer was on January 2, Mr. Miller.

Q On January 2? Without seeing your letter or your offer, can you testify as to the principal terms of your offer?

A Yes.

Q What were they?

A We offered \$100,000 bonus to be taken out of oil if we obtained production.

Q Was the 100,000, if you didn't get oil, was it still a firm commitment to pay a hundred thousand?

A Yes. We would lose \$100,000 if we drilled three dry holes.

Q When was the hundred thousand to be put up?

A Immediately.

Q Immediately, okay.

A Yes. We offered to drill three 4000-foot, or basement tests, whichever were the lesser. I mean lesser depth. We offered a 30-40-30 split on following the L.B.O.D. type of agreement.

In other words, we guaranteed the City a base 30. Costs of development would be taken out of the 40. We would get the other 30. If costs exceeded 40%, that was our problem. In other words, that would come out of us. It would never effect the base 30.

If, as the development continued, the costs were less than 40, and there was money left over from the 40%, that

would go to the City.

Q Generally, the terms advanced were on an operating contract basis rather than the usual lease basis with sliding scale?

A Yes, sir. It is a contract identical, you might say, and we didn't discuss the contract, of course, so I had a problem there. It is identical with L.B.O.D. with the City of Long Beach.

Q And you never did familiarize yourself then later on with the lease that Standard actually got on this area?

A I wasn't given the opportunity, I asked on one occasion whether I could see it. I actually asked after the meeting of the 9th if I could see the terms of this successful bid, and they said that they would be made available to me at a later date, but not right at that time.

ASSEMBLYMAN MILLER: All right. That is all the questions, I have, Mr. Chairman.

CHAIRMAN ALLEN: Any other questions?

ASSEMBLYMAN SUMNER: I have.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q You say that your bid was submitted on the 2nd, or was it submitted on the 9th?

A Our bid was submitted on the 2nd, along with the rest of the bids.

Q And it was in before the deadline?

A Yes. I delivered it myself between 11 and 12 o'clock the morning of the 2nd of January.

Q And had you been told that they would take up this question of the bids on the 2nd? Is that why you attended the meeting?

A No. The letter requesting that we submit an offer said that it must be in prior to noon on January the 2nd. And we followed that notice.

ASSEMBLYMAN SUMNER: No other questions. Oh, I do, excuse me.

CHAIRMAN ALLEN: Go ahead.

ASSEMBLYMAN SUMNER: (Q) Do you have any other leases in any other properties owned by the City of Los Angeles, your company?

A Nor by the City of Los Angeles, to my knowledge.

Q And have you negotiated, or your company negotiated, with the State or any other cities relative to leasing of that type?

A Yes, we have existing State leases. We are a member of L.B.O.D. at Long Beach.

Q What type of notice is customarily given in asking for negotiations or bids?

A Well, my amount of experience in the oil business

has been - I will say it is my experience - it is never less than 30 days to give you an opportunity to bid on something, where there is so much money, your own money, I mean, involved, as this particular item. I would say a minimum of 30 days and it would graduate from there to any length of time.

CHAIRMAN ALLEN: Mr. Hanna?

EXAMINATION (Continuing)

BY ASSEMBLYMAN HANNA:

Q Did you say that the term negotiated bid was used?

A Well, I can read it to you, Mr. Hanna. This is the second paragraph of the letter that Mr. Allen showed me when I first seated myself here. It says,

"You are accordingly notified that it is anticipated that a negotiated contract will be entered into by the Board on this property."

And we took that word "negotiated" literally.

Q Then there is an accepted meaning to that phrase within the industry?

A In my opinion, there is.

Q And I believe you testified that someone in the Harbor Commission indicated to you that this was the manner that was historically followed --

A Yes.

Q -- by the Harbor Commission? You had not previously, however, had any experience with the Harbor Commission and their interpretation of this phrase, is that correct?

A I had conversations with Mr. Caughlin relative to it.

Q And did it appear to you that he had the same understanding of that phrase as you have, from that conversation?

A It appeared to me that he did.

ASSEMBLYMAN HANNA: That's all.

CHAIRMAN ALLEN: Any other questions?

Mr. Francis.

EXAMINATION (Continuing)

BY ASSEMBLYMAN FRANCIS:

Q Sir, could you tell us in what respect did you feel that your offer for a lease was far superior to the one that was made by this other group which eventually was awarded the lease?

A Well, I can tell you generally, Mr. Francis. We tied what we thought existed here in the Inner Harbor into the Wilmington Field.

Now, whether we are right or wrong, I don't know. But we tied it into that and, having some experience in the Wilmington Field, being a member of L.B.O.D., we studied or thought we knew generally the decline curves of

production, and the possibilities in the long run of remuneration to a lessor or contractor, and we felt that in the life of the field, or during the life of the field on a sliding scale, you would be down at the bottom of that scale the majority of the time after your initial production, you see.

Now, our particular bid set a base 30. The other sliding scale started at 30. We felt that as we developed the field the cost of operations, as at Long Beach, were cheaper. In other words, you got your facilities in, your development program was established, and therefore the costs would be less than that 40%, you see. So the difference between the costs and the 40 would go to the City of Los Angeles, and they would receive more than 30%.

Q Well, wasn't the executed lease contained in a provision of sliding scale to anywhere from 30 to 50%?

A Yes, sir, but you follow my statement that the life of the field, in other words, as the decline curve develops and production levels off, we feel, now, that is what our opinion is, that you will be at the bottom of that during the greater length of time involved in production.

In other words, you will be more time at the bottom of it as your production grows older than you will be at the top when you make any initial discovery.

Q Well, with that analysis, then, the final result would be in comparing the two leases. Normally it would

show a greater royalty revenue to the City based on your analysis?

A In the long run. The life of the field.

ASSEMBLYMAN FRANCIS: Thank you very much.

CHAIRMAN ALLEN: Any other questions? Mr. Hanna?

ASSEMBLYMAN HANNA: Then this would have been the type of presentation you hoped to make had you been given an opportunity to negotiate a contract?

THE WITNESS: That's right.

ASSEMBLYMAN HANNA: As you understood that term?

THE WITNESS: We developed and set up some plans and showed some decline curves, and generally our thinking of what might happen, and hoped we would get an opportunity to lay that out.

CHAIRMAN ALLEN: All right. Thank you, Mr. Cormany. You may be excused.

(Witness excused.)

CHAIRMAN ALLEN (Continuing) Is Mr. Caughlin here?

BERNARD J. CAUGHLIN,

called as a witness by the Committee, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q And your name, please, full name?

A My name is Bernard J. Caughlin, C-a-u-g-h-l-i-n.

Q It is spelled with an A?

A Right.

Q And your occupation?

A I am the General Manager of the Los Angeles Harbor Department.

Q How long have you held that position?

A Since June of 1954.

Q I will show you a form of notice that has been previously identified as Exhibit 18 and discussed this morning as having been sent out by the Harbor Department and ask you if you are familiar with that?

A I am.

Q I understand that that form notice was mailed out from your office.

A That is correct.

Q When?

A December the 20th, 1956.

Q And how did this notice happen to be sent out?

A It was sent out on instructions of the Board of Harbor Commissioners.

Q When were these instructions adopted?

A December the 19th, 1956.

Q Was that at a meeting of the Board of Harbor Commissioners?

A At an official meeting.

Q And do you remember who made the motion to send out

that type of notice?

A No, I can't be sure.

Q Do you recall if it was Mr. Hyland?

A It could have been, but I wouldn't say definitely unless I refer to the Minutes of the Board. It shows it very plainly.

Q All right. Now, am I correct in stating that this invitation referred to the property marked generally on that map as the Inner Harbor?

A That is correct.

Q I will show you a letter addressed to you from Mr. Rouse dated December 19, and ask you if you ever saw the original of that letter?

A Yes, I have seen the original.

Q And does that refresh your recollection that Mr. Hyland made the motion to send out this notice?

A It is signed by Mr. Rouse. He is the Secretary of the Board, and if it says that Mr. Hyland was the one who made the motion, then undoubtedly he did.

Q All right. We will mark that as the next exhibit.
(Letter 12/19 marked as exhibit.)

MR. ALLEN (Continuing) Were you present at the meeting of the Board of December 19 --

A Yes.

Q -- 1956?

A Yes, I was.

Q Was there any discussion about this notice at that time?

A Yes, there was a little discussion. As Mr. Hyland stated yesterday, he stated that since the Los Angeles City Council had taken action, that he thought we should proceed with the West Basin proposed lease.

Q What action of the City Council are you referring to?

A I am referring to a communication that was received by the Board of Harbor Commissioners at that meeting advising that the City Council had granted lease or had instructed the attorney to draw a lease at the Harbor Development Company, outside the breakwater.

Q And the area outside the breakwater, as I take it, was not under the jurisdiction of the Board of Harbor Commissioners?

A That is correct.

Q What connection did that have with the leasing of the Inner Harbor, then?

A It has nothing. It has no connection, as far as area is concerned, you mean?

Q Well, the letter says, "Now that the City Council has taken action," and, in effect, that the Board of Harbor Commissioners should now go ahead. I just wondered what occasioned that remark?

A You would have to ask Mr. Hyland that.

Q Now, prior to sending out this letter of December 20, 1956, had you discussed the leasing of this Inner Harbor property with any applicant?

A Probably generally, yes, on a general basis. Not a specific basis.

Q You already had applications filed by a group associated with Standard Oil, is that right?

A That is correct.

Q And am I correct in stating that some time in 1956 Standard Oil Company of California had filed an application with your office to lease this property; a letter or something to that effect?

A Let me refer to our files, if you don't mind.

Q All right.

A On July the 25th, 1956, an application was filed by the Standard Oil Company of California for the leasing of this area.

Q And did you have any other applications prior to sending out this notice?

A Yes, We had an application, I believe, from Atlantic Oil Company.

Q When was that?

A That was January the 25th, 1956. We had an application from Kadane & Sons that was dated April the 25th, 1956. I do not know which Board meeting that went to, but it was officially before the Board.

Q On the application of Kadane & Sons were Frank J. Waters and James J. Arditto and Noah Dietrich associated in the application?

A No. It was a letter signed by G. E. Kadane & Sons.

Q All right. And when were Waters, Arditto, and Dietrich associated in these applications?

A As far as I know, on November the 28th, 1956.

Q I will show you a document we just found in our folder dated November 23rd, and I will ask you if that is the one you are looking for?

A Yes, that is correct. It is the Standard Oil Company letter of November the 23rd which was presented to the Board on November 28th.

Q We will mark the letter just referred to. It has already been marked as Exhibit 17.

Did you see this letter of November 23rd when it came into your office?

A The letter did not come into my office. It came to the Board of Harbor Commissioners, Room 1300, City Hall, Los Angeles.

Q Where is your office?

A San Pedro City Hall.

Q Did you learn of this letter some time after that?

A Yes, when it was presented to the Board on November 28th.

Q What date?

A November 28th.

Q And prior to the letter being presented to the Board had you been informed that either Mr. Arditto, Mr. Waters or Mr. Dietrich were interested in the leasing of the Inner Harbor?

A I did not.

Q Did either one of them talk to you about it?

A No, sir. Not to my recollection.

Q And after this letter was presented, or at any time, did you discuss the leasing of the Inner Harbor with either Mr. Arditto, Mr. Waters, or Mr. Dietrich?

A Yes. I had one or two conversations, I believe, with them primarily on the royalty rates and the bonus provision of the lease.

Q When was that?

A Well, I couldn't say exactly when it was. I have no record of the conversation. I took no notes on it.

Q Was it before or after January 2, 1957?

A Prior to that time.

Q Would you say within a month prior to then?

A Well, it would have to be pretty close because November 28th and January 2nd is pretty close to a month.

Q It would have been between November 28th and January 2nd, then?

A Yes.

Q And was that with the three of them together?

A No. I think my conversations were all telephone conversations, as I recall.

Q And was that with each of these men?

A As I recall it, they have a connection in their office where, if you talk to one, the other can listen on the extension.

Q Does Mr. Dietrich share offices with Mr. Waters and Mr. Arditto?

A I know nothing about Mr. Dietrich.

Q Did you ever talk to Mr. Dietrich about leasing that Inner Harbor property?

A No.

Q Just Mr. Arditto and Mr. Waters?

A Right.

Q Pardon?

A Yes.

Q Did you discuss the leasing of that property with any other applicants prior to January 2nd, 1957?

A Oh, at various times I had people call in to my office wanting to know if property was available for lease, yes.

Q Is there any reason why the period of this notice

from December 20 to January 2nd was so short?

A Those were my instructions from the Board of Harbor Commissioners.

Q I believe you were present this morning when there was testimony to the effect that prior to sending out this invitation of December 20th you had a conversation with Mr. K. R. Hazard of the Texas Company wherein you told Mr. Hazard that this was already arranged for Standard Oil and their group to get the lease.

A That is an untrue and false statement. I never had any such conversation with anyone -- in which anyone was advised of such effect.

Q Did you have any conversations with Mr. Hazard at any time?

A I don't recall Mr. Hazard. If I would see the man, I might recall him. But I don't know if I did or not.

Q Did you have any conversation with anybody from the Texas Company at any time about the Inner Harbor?

A Not that I recall. Let me refer to my file and see if there is anything in these proposals from Texas. I don't seem to have a file on it, but in my memorandum I had a notation that on August the 22nd, 1956, and that may have been an official communication with the Board, "Have requested notification for any leases for drilling."

That is all I have.

Q Is that the Texas Company had requested notices?

A That is all my recollection is. I just have it in a penciled note is all.

Q How long have you held this position with the Board of Harbor Commissioners?

A Since June, 1954.

Q Prior to that time were you connected with the Harbor Commission?

A Yes, I was.

Q Was Mr. Waters at any time on the Harbor Commission?

A He was.

Q Would you tell us when?

A I believe in the latter part of 1953.

Q That is before you became the Manager?

A Right.

Q Did Mr. Dietrich ever have any official connection with the Harbor Commission?

A I have never talked to Mr. Dietrich in my life, and as far as I know he has never had any connection with the Harbor Commission.

Q All right. Are you familiar with the Stanley and Stolz report of October 29, 1956?

A I have read it.

Q Who hired Stanley and Stolz to produce that report?

A The Board of Harbor Commissioners.

Q And when did they ask to have this report prepared,

just approximately?

A Well, let's see. Oh, I don't know exactly. The negotiations started in the early part of 1956, I believe, which resulted in our entering into a contract with Mr. Stanley for the preparation of the report, as I recall it. I have the file here some place, if you would like me to look it up definitely.

Q No, that's all right. Was this report given to the members of the Board of Harbor Commissioners?

A Yes, I believe they all received copies of it. It was officially accepted by the Board.

Q Do you remember any discussion by the members of the Board of Harbor Commissioners about the recommendations in this report?

A Not particularly, except that as I recall it, Stanley's report called for the Inner Harbor to be divided into two areas, and they decided to put it out in one. He also called for informal proposals, which they followed.

Q The recommendations of Stanley and Stolz clearly stated the kind of payments the Board should ask on these oil leases and states also that only one variable should be made in the lease offering so that a comparison could be obtained on the various lease proposals. Now, that recommendation was not followed, was it?

A No, that was not followed.

Q Is there some reason that you are familiar with why

it was not followed?

A The Board had other ideas, I assume.

Q Was there any discussion between the members of the Board about this recommendation?

A Not that I recall particularly on it. It was discussed, the whole report was discussed.

Q Now, I will show you an excerpt from the Minutes of the Board of January 9, 1957, where the recommendation of the Committee on these leases was received and various proposals are described. I take it you are familiar with that report?

A Yes, I am familiar with it.

Q And the various proposals by various oil companies are described in this?

A Right.

Q Which was the best proposal?

A In my opinion, the Standard Oil proposal was the best proposal.

Q Why was that any better than that offered by Apex, or General Petroleum, or Hancock?

A Well, they had different royalties, for one thing. Apex offered a 20% royalty. The letter is self-explanatory as far as the proposals that were offered.

Q Well, the Minutes say that, regarding Apex, "They did not, however, make any proposal on the 1350 acres as outlined in the proposal request."

Now, I have a letter of Apex here of January 1 proposing a sliding scale royalty starting at 20% on a small parcel of 150 to 200 acres, and then stating at the end, "In the event you are not interested in our proposal as above outlined, we would be interested in leasing the entire 1350 acres on a negotiated sliding scale royalty to the Harbor Department. We will be pleased to discuss this matter in detail at any time at your pleasure."

A Mr. Allen, would you refer to the letter that you just showed me? You said that Apex made no proposal.

Q The Minutes refer to Apex on Page 1, the top of Page 2. There is the statement, "They did not, however, make any proposal on the 1350 acres as outlined in the proposal request."

A May I see that again, please?

Q And we have a letter here from Apex offering to negotiate a sliding scale royalty lease on the entire parcel. I will show you the letter from Apex also.

A Well, I am reading from the first paragraph of this letter:

"Apex Petroleum Corporation Limited proposed to drill a test well and to pay royalty on a sliding scale basis with a minimum of 20%, if the Board of Harbor Commissioners would agree to lease adjacent property from 150 to 200 acres."

That is what their proposal states, as I recall it.

Q And the Minutes state also that there was no offer from Apex on the entire parcel. But, if you look at the letter from Apex --

A There was no offer from Apex.

Q All right, look at the letter from Apex, the last paragraph. What does it say there?

A I have the original copy here. All that the Apex letter says is,

"In the event you are not interested in our proposal," which tied in other areas as well as this area, "as outlined, we would be interested in leasing the entire 1350 acres on a negotiated sliding scale royalty with the Harbor Department." That was not a definite proposal.

Q Was Standard's a definite proposal?

A Yes, Standard's was a definite proposal.

Q How was Standard's any better than negotiating a sliding scale royalty with Apex?

A In the first place, Standard quoted the royalties.

Q How about Hancock? They quoted the royalties.

A Right.

Q How was the Standard offer any better than Hancock?

A In my opinion, it was.

Q Why?

A Well, in the first place, I don't like a contract with a lot of undetermined factors in it, such as production costs and some of those variables that are very hard to

determine.

Q Well, Hancock offered a \$100,000 cash bonus, guaranteed 30% royalty to the City, and a cost plus arrangement limited to the 40% figure.

A That's right, they did.

Q Did you ever tell anybody from Hancock you didn't like that kind of an arrangement?

A I did not.

Q Can you tell this Committee that the Harbor Commission would have received more revenue over the life of the lease from Standard Oil than from Hancock?

A In my opinion, yes, sir.

Q Well, if you could set down some figures on paper where you could demonstrate that, we would like to see it.

A No, I wouldn't be interested in putting any figures down.

Q Was there any discussion with Apex about their offer to negotiate a lease to the sliding scale on the entire parcel?

A No.

Q Why not?

A There was no discussion with anybody about these leases.

Q Well, no discussion with anybody?

A That's right. After these proposals were received.

Q Where is that letter from Standard? I will show

you a group of letters from Standard Oil, Kadane & Sons, Waters, Arditto, and Dietrich, previously identified. This folder contains a letter dated July 6, 1956; a letter dated January 2, 1957; and a letter dated January 4, 1957. I ask you if you are familiar with those?

A Yes, I am familiar with these. I probably should have said no negotiations rather than discussions.

Q Well, how did it happen that Standard Oil was allowed to submit this letter of January 4, 1957?

A Let me have that a second. You will recall in the January 2nd letter of Standard Oil, Paragraph C says, "We herewith agree to explain in detail each and every phase of our applications in order to insure adequate and complete understanding of the proposal submitted in accordance with your request," which they had other items in there.

When the proposals were opened and discussed with the Board I was told to contact the Standard Oil Company and ask for clarification of the letter, which I did.

Q Well, this letter of January 4 is different from the previous proposals of Standard Oil, isn't it?

A It is clarification of the bonus provisions of it.

Q You mean \$100,000 cash on the line is different than from 5 years paying 40,000 a year repayable out of the royalties? Or clarification of it?

A It is different if you get the cash, I guess.

Q Why was Standard Oil allowed to make this clarification or change, or whatever you call it, and the other oil companies were not?

A I don't recall anyone asking for a clarification of a previous proposal.

Q Now, Mr. Caughlin, you have told us that you received the proposal, or inquiry, whatever it was, from Atlantic Oil Company January 25, 1956, an application from Standard Oil July 25, 1956, the first one was January, the second one July, one from Kadane & Sons April 25, 1956, and the records indicate nothing much happened until November the 23rd, 1956, when the applications of Kadane & Sons and Standard Oil were joined in a letter to the Board of Harbor Commissioners which shows that there was also associated Mr. Arditto, Mr. Waters, and Mr. Dietrich. And then things really began to move.

Can you give us any indication as to why this time schedule?

A Yes, I can.

Q All right, fine.

A Because the Board of Harbor Commissioners had entered into an agreement with Mr. Stanley as how to proceed on the Inner Harbor and the Outer Harbor areas of Los Angeles Harbor. In the meantime, everything was held up pending the receipt of that report.

Q You mean the Stanley and Stolz report?

A Right.

Q Was that received around the date of October 29, 1956?

A I don't know exactly the date that it was received. I believe it was officially put in the Minutes on November 28, 1956. But it was around that date.

Q Do you recall that the lease was made by the Board of Harbor Commissioners on a five-acre surface area and 27-acre bottom area?

A I do.

Q Do you remember when, can you tell us from your notes when the first application was made for that lease?

A I think I can. No, I don't believe I have that Kadane lease with me. I'm sorry.

Q I will show you a letter dated September 4, 1956, addressed to yourself, certified by Mr. Rouse as a true copy, and attached to it is an excerpt from the Minutes of the Board of Harbor Commissioners of October 3, 1956, which quotes a Committee report dated September 5, 1956, on the same property. Also certified as a true copy.

I will ask you if you are familiar with those papers?

A I believe that Mr. Nordstrom, the Assistant City Attorney, has some photostats of some of this Kadane. If you don't mind, I would like your permission to ask him if he has them.

Q Go right ahead.

A I am sorry we don't have that Kadane lease. I overlooked it.

According to the memorandum I have, the application was made on April the 25th, 1956; presented to the Board on May the 16th, 1956.

Q Who was the application from?

A Well, I am sorry I don't have a copy, but my records show G. E. Kadane & Sons.

Q And may I see those documents?

A Yes.

Q What action was taken by the Board after receiving this application?

A It was referred to the Land and Leasehold and the General Manager for recommendation.

Q Land and Leasehold Committee, is that right?

A Right.

Q And yourself sitting in with the Committee?

A And the General Manager, that's right.

Q Do you sit in with these committees when they meet, most of the time?

A Yes, most of the time. Always the Land and Leasehold Committee.

Q Now, the original application was by G. E. Kadane & Sons, I take it, without associating anyone else?

A As far as I know, yes.

Q Standard Oil was not involved in this property at all?

A No.

Q Now, I see here a letter from G. E. Kadane & Sons addressed to yourself, dated September 4, notifying you that their application of April 30, 1956, is modified by associating James J. Arditto for 12 1/2%; Frank J. Waters for 12 1/2% interest; and the very next day we find a report from the Land and Leasehold Committee approving a lease to these people. No action previous to that time.

Can you explain that time schedule to us?

A As I recall, and again I apologize for not having the file with me, as I recall, after the lease was prepared a representative of Mr. Kadane came in and I gave him the lease that had been prepared in the name of G. E. Kadane & Sons. And at that time he informed me that Frank J. Waters and James J. Arditto had an interest in it.

Q When was that?

A As I recall, August the 31st.

Q And who was the man that informed you of this?

A It was Mr. Kadane's representative.

Q Mr. Gilstrap?

A Yes.

Q Why was it that no action until this letter from Kadane associating Arditto and Waters was received, and then you get immediate action on it?

A In the meantime, between the date of the application surveys had been made, maps had been prepared, the matter had been referred to the City Attorney for the preparation of the lease, and it just takes time, that's all.

Q Were there any other oil companies invited to submit proposals on that property?

A No. That was --

Q Pardon?

A No, that was an application from Kadane that was acted on.

Q Do you know any reason why no other oil companies were invited to submit proposals on that?

A Well, that particular piece of property had been under lease since 1956 to the Interstate Petroleum Corporation, whose lease expired, as I recall it, in February, 1956. They had drilled two wells on the adjacent property in their lease which is also under the Matson Terminal area. They got such poor production that they weren't interested in drilling any more wells, so when their lease expired this area was not included in their new lease.

Q All right. But what has that got to do with inviting oil companies to submit offers on this?

A You don't always invite them on a small parcel like that.

Q I believe you said you have been the General

Manager of the Board of Harbor Commissions since June of '54?

A Right.

Q And prior to that time what was your position?

A I was Assistant General Manager.

Q And how long did you have that position?

A Since May 1st, 1947.

Q And prior to that your occupation?

A I was with the Luckenbach Steamship Company for 24 years.

Q Do you know Mr. Arditto?

A Yes.

Q How long have you known Mr. Arditto?

A Oh, I don't believe I have known Mr. Arditto more than two or three years, probably.

Q How about Mr. Waters, how long have you known Mr. Waters?

A Since 1953 when he first came on the Board of Harbor Commissioners.

CHAIRMAN ALLEN: Any questions by the Committee?

ASSEMBLYMAN SUMNER: Yes, I do.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q Do you remember whose idea it was to send out the

notices on the Inner Harbor area?

A No, I can't say whose idea it was.

Q Were you here yesterday when Mr. Hyland testified?

A Yes.

Q Do you remember him testifying that he wasn't going to send out any notices and you suggested to him that maybe it would be a good idea to send out notices to these people who were interested?

A Oh, I believe that -- I believe when the matter came up that I told the Board that over the years that I had received letters, and we had some applications on file of persons or firms who wanted to be notified if the Board of Harbor Commissioners was going to enter into leases, and that was what brought that about.

Q So actually it was your statement at that time that seemed to prompt the Board to do so, according to Mr. Hyland, is that right?

A I would say probably.

Q And why did they pick this short period of time? Or, without editorializing, why did they pick this period of time?

A Well, I think Mr. Hyland answered that pretty well yesterday when he said it had been hanging fire for a long time and the Board thought we should move on it.

Q Well, now, when you sent out this notice, though,

you made requests for negotiated bids. What did you mean by that?

A It would give us the right to negotiate after the proposals were received. It is different than a formal bid.

Q And yet you made the determination on the basis of the actual bids presented?

A Yes.

Q But no one was given an opportunity to negotiate?

A I didn't negotiate with anybody.

Q You didn't negotiate with anybody?

A No.

Q So, in effect, what you did was - correct me if I am wrong - you asked for negotiated bids, but the bids that came in were treated the same way as if they had been sealed bids?

A Well, we didn't ask for bids. We asked for informal proposals on the basis that if the Board wanted to negotiate after they were received, that they could. But not necessarily that they would.

Q Is this the practice that has been followed in the past? Well, apparently in some --

A Only once that I know of.

Q How much were Stanley and Stolz paid, do you know, for their report?

A No. I don't know offhand. Wait a minute, I will

see if I have got the file with me. I don't have a record of it, of the actual amount that was paid. It was drawn on a per diem basis.

Q Do you have an approximation?

A No, I can't answer that without finding out. I would be very happy to furnish that to the Committee, if they wanted it.

Q Could you do that, please?

A Yes.

Q We would appreciate having that information. And they were retained, as I understand it, they were geologists, and they were retained by the Harbor Commission for recommendations relative to the leasing of the Harbor Commission's lands, is that correct?

A That is correct, yes.

Q And yet none of their recommendations were accepted, is that right?

A Well, some of them were. As I recall, the report said that the Board should send out informal proposals, which they did. The combining of the two areas was a very small matter, and the only thing they really didn't agree with was the conclusions they reached in the bonuses and the royalties. That is the only thing they didn't follow, as far as I know.

Q Didn't they say that you should reduce everything to one variable? In other words, all of the bids should

have one variable, and on that basis you should have sealed bids; competitive bidding?

A I don't know. You have the reports there. It can be read to see what they did say. It is a matter of record.

Q Does the Harbor Commission have any expert on a full time basis dealing with the leasing of oil lands?

A No.

Q And when you want any information, where do you get it? Or do you just use your own judgment?

A Well, we do both. We have had geologists make reports to us. Mr. Geis made two reports, one on the royalties rates in the Harbor, which we were getting, and in which he said all the royalties should be reduced. And we have had Mr. Stanley from time to time make reports on various small matters. Actually, our oil leases in the Harbor is very small.

Q Yes, but you had in your possession this City Council Resolution that said, "Eminent geologists and petroleum engineers have stated that the oil and gas reservoirs which may rightfully belong to the City of Los Angeles through its ownership of the Harbor properties may be many times as rich and revenue producing as the Long Beach Harbor field."

Didn't this give you some indication that maybe what you were dealing with was something worth many millions of

dollars?

A Not the West Basin Area. That area had been drilled, oh, back as far as 1922, and they had found four dry wells. Since that time there have been two more wells drilled and they are both dry wells.

So actually, it is very wildcat whether there is any oil in the West Basin at all.

Now, the Geis report dealt primarily with the Outer Harbor Area in which he says that he thinks there is oil there, but you would have to drill to find out. That is an entirely different situation than the Inner Harbor, we think.

Q And I wasn't sure that my notes were correct. Is it correct that there were no bids taken on this five-acre lease; this was just a straight --

A That is correct.

Q And no notice sent to anyone on that?

A That is correct. We thought it was too small to bother with.

Q Do you know whether or not they have been recovering anything from that?

A Their contract calls for the drilling of five wells. They have actually drilled three wells. They are producing an average of about, I think the last report I had was 18 barrels a day per well. And I had a call from the Kadane representative who said the production was so small that they

wanted to know if they could get out of the drilling of the last two wells.

So I told them to submit a letter which I have not yet received, and I would discuss it with the Board.

ASSEMBLYMAN SUMNER: All right, thank you. No further questions.

ASSEMBLYMAN HANNA: Mr. Chairman?

CHAIRMAN ALLEN: Mr. Crawford first. Then Mr. Hanna.

EXAMINATION (Continuing)

BY ASSEMBLYMAN CRAWFORD:

Q For my information, I wonder if you would tell me how your Board of Harbor Commissioners works? As you know, in some areas the General Manager or Executive Secretary does most of the actual investigation and makes the recommendations and the Board more or less acts as a, well, a rather harsh term, a rubber stamp deal approving or disapproving this work; ratifying, my colleague tells me is a better word.

In other places the Boards operate, do all the actual work and use the General Manager only as more or less a leg man to seek out the information.

Could you tell me how this particular Board operates?

A First, I would say our Board does not operate like a rubber stamp. It is a part time board. We have a meeting on every Tuesday afternoon now starting at three

o'clock. And it lasts maybe, oh, from a hour to two or three hours. And in the meantime the General Manager is charged with the administration of the Harbor and makes recommendations to the Board.

Now, our Board operates through the Committees quite a lot, like the Land and Leasehold Committee, Public Relations Committee, and some of those. And they meet with the Manager and also some of the other division heads, and discuss the matters.

Q Who prepares the agenda for the meeting?

A It is prepared by the Board's secretary.

Q And if it develops that there are deviations from standard procedures with regard to leases, then you would say that your actions were in accordance with the directions of the Board members?

A I think you better state it more specifically, just what you are wanting to know.

Q I will rephrase the question. If it should develop that there are deviations from standard accepted procedures in leasing of Harbor lands, would you say that any such actions by employees, or yourself, of the Harbor Commission were so acting under the directions of the Harbor Commission?

A Well, let me put it this way: The Board of Harbor Commissioners has to approve all leases. And all leases under the charter of the City of Los Angeles must

be adopted by order. They cannot be handled any other way. All leases for a term of more than five years must be confirmed by the Los Angeles City Council and must be published before they can become effective.

Q To put it rather succinctly, who would be responsible for deviations from standard accepted procedures in the requesting of bids?

A Well, the Board would instruct me how they wanted it done. If they --

Q And you would follow the Board's recommendations?

A Yes.

ASSEMBLYMAN CRAWFORD: Thank you.

CHAIRMAN ALLEN: Mr. Hanna?

ASSEMBLYMAN HANNA: Mr. Chairman, I just wish to ask Mr. Caughlin if, since he is going to provide this Committee with the amount of money that was paid to Stanley and Stolz, if he could also provide for us the period of time which they were employed, and thirdly, the items recommended which were followed by the Commission.

CHAIRMAN ALLEN: Have you got that, Mr. Caughlin?

THE WITNESS: Yes. I have that. Be happy to.

CHAIRMAN ALLEN: All right, thank you. Any other questions? All right, that is all.

THE WITNESS: I would like to make a statement.

CHAIRMAN ALLEN: Do you want to add something?

THE WITNESS: Yes.

CHAIRMAN ALLEN: Go right ahead.

THE WITNESS: In the testimony this morning I believe Mr. Miller is under the impression that the Board of Harbor Commissioners have granted a lease to this Inner Harbor Area. That is not correct. There has no lease been granted to this area whatsoever. The only action that the Board of Harbor Commissioners did was at their meeting of January the 9th they approved the report of the Oil Committee and the General Manager, and referred it to the City Attorney to prepare the lease.

Outside of that, no further action whatsoever has been taken and there is no lease in existence at this time.

CHAIRMAN ALLEN: All right.

EXAMINATION (Continuing)

BY ASSEMBLYMAN MILLER:

Q That is on the Inner Harbor?

A That is on the Inner Harbor.

Q Now, was there any lease given on the Outer Harbor?

A No.

Q Any lease given beyond the breakwater?

A Not by the Board of Harbor Commissioners. The City Council did enter into a lease outside of the breakwater.

Q And the reason this lease is being held up on the Inner Harbor, as I understand it, is because some

litigation is pending in respect to it? Proposed lease --

A Would you restate that? No, that is not true. The Board of Harbor Commissioners have not yet decided whether to call for proposals on the Outer Harbor. The litigation is on the lease outside the breakwater.

ASSEMBLYMAN MILLER: All right.

CHAIRMAN ALLEN: Well, Mr. Tanner was disqualified through the proposal on the Inner Harbor through the City Council, is that about what happened?

THE WITNESS: Well, Mr. Tanner was disqualified some time after this discussion came up, and that was -- actually, the lease was held up at the request of Mayor Norris Poulson. He asked the Board in an official letter which was introduced yesterday, I believe dated January 30th, referred to the Board on February 13th, and he asked the Board of Harbor Commissioners to hold up all further leasing until such time as the City actually decided what policy they would adopt regarding the leasing of oil properties.

CHAIRMAN ALLEN: All right. Anything further?

THE WITNESS: Yes. I have one or two more things.

In the testimony yesterday of Mr. Callahan he stated that he had made an application to drill in the Inner Harbor area. In the testimony this morning of the other man from Wood-Callahan, if you recall, he stated that they were not interested in the Inner Harbor area. The testimony of the

latter man is correct because in the application that they filed with the Board of Harbor Commissioners it was on the Outer Harbor Area, and we had no knowledge whatsoever that they were even interested in the Inner Harbor Area.

However, at the time I put out these letters on December the 20th I put out letters to all persons or firms whom I knew were interested. I have a map from Wood-Callahan that accompanied their application, if you would care to see what area they --

CHAIRMAN ALLEN: Are you telling us they were not interested in the Inner Harbor Area?

THE WITNESS: I am telling you that they had never expressed to us that they were interested in the Inner Harbor Area, and that was confirmed by testimony this morning, I believe.

ASSEMBLYMAN SUMNER: We clarified that, Mr. Chairman. I got the opposite impression from the testimony this morning.

THE WITNESS: That is prior to this notice that went out, Mr. Chairman.

CHAIRMAN ALLEN: Oh, you mean before the notices went out?

THE WITNESS: Right.

CHAIRMAN ALLEN: But after the notices went out they submitted an offer?

THE WITNESS: Oh, that is very true.

CHAIRMAN ALLEN: On the Inner Harbor?

THE WITNESS: But before that time we had no notice they were interested in the Inner Harbor, and that is what Mr. Callahan left yesterday, and I wanted to definitely correct that.

CHAIRMAN ALLEN: They were trying to get a lease on the Inner Harbor when you sent the notice out? They filed an offer, didn't they?

THE WITNESS: Yes, they did.

CHAIRMAN ALLEN: All right. Any further questions?

THE WITNESS: Now, also the General Petroleum is the same situation. They have never expressed a desire to drill in the Inner Harbor, but they have filed an application, I believe, for the Outer Harbor Area and had expressed the desire to bid on any proposals on Harbor lands generally. And they were also sent one of these letters on December the 20th. The gentleman from General Petroleum yesterday indicated they didn't have time to bid.

However, at the time they submitted their proposal on the 2nd of January it was accompanied by a 13 page proposed lease which must have taken quite some time to prepare.

CHAIRMAN ALLEN: How long would it take, would you tell us it would take, to prepare a 13 page lease?

THE WITNESS: Well, the way we look over our leases in

the Harbor Department, you couldn't prepare one that fast, I will tell you that.

CHAIRMAN ALLEN: Well, how long? One day, two weeks?

THE WITNESS: No. By the time you discussed it, I would say that it couldn't be prepared in less than a week or ten days.

CHAIRMAN ALLEN: Well, then why was this notice that was sent out On December 20th such a short notice?

THE WITNESS: All that was for --

CHAIRMAN ALLEN: If you really expected to get proposals from oil companies, you would have given them longer notice, wouldn't you?

THE WITNESS: That has nothing to do with the preparation of a lease. That is merely a proposal and terms. There are many leases prepared by the Harbor Department that have to be negotiated after such a time as a proposal is made.

CHAIRMAN ALLEN: All right. Have you got anything further?

THE WITNESS: That is all.

CHAIRMAN ALLEN: All right, thank you. You will be excused.

(Witness excused.)

CHAIRMAN ALLEN (Continuing) We will take a recess at this time until 1:30 and I will ask the witnesses under subpoena to return at that time.

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ASSEMBLY INTERIM COMMITTEE ON
JUDICIARY

Subcommittee on Tidelands

Hearing Held

Friday, January 24, 1958, at the hour of 1:30 P.M.

In

Auditorium, Los Angeles Police Building
150 North Los Angeles St., Los Angeles

MEMBERS PRESENT: Bruce F. Allen, Chairman
 George G. Crawford
 Louis Francis
 William Grant (Non-member)
 Richard T. Hanna
 Allen Miller
 Bruce Sumner
 Howard Thelin

LOS ANGELES, CALIFORNIA, FRIDAY, JANUARY 24, 1958, 1:30 P.M.

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CHAIRMAN ALLEN: The meeting will please come to order. Is Mr. Hutchins present?

J. BARTON HUTCHINS

called as a witness by the Committee, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Be seated, please, your name and occupation?

A My name is Hutchins; J. Barton Hutchins, associate of Edwin W. Pauley. I am also an employee of his.

Q And how long have you been associated with Mr. Pauley?

A About 20 years.

Q And I take it Mr. Pauley is in the oil business?

A Yes, sir.

Q That is individually, or as a corporation, or what?

A Mr. Pauley is in the oil business as an individual.

Q And does that include the production of oil; drilling and production?

A Yes, sir. At one time it included the marketing and manufacturing also of oil products.

Q And has this been true throughout the period you

have been associated with Mr. Pauley?

A That is correct, sir.

Q And do you work, in your business with Mr. Pauley, do you work in relation to oil leases, and things of that nature?

A Yes, sir, I am Manager of his Lands and Lease Department.

Q I will show you a letter previously marked as Exhibit 8 in the hearing, addressed to Mr. Edwin W. Pauley, dated April 25, 1956, bearing the signatures of both James J. Arditto and Edwin W. Pauley, and ask you if you are familiar with that letter?

A Yes, sir. My initials appear on it some place there.

Q This letter starts out, "For some time we have been considering the possibility of acquiring an oil and gas lease or development contract with the City of Los Angeles or its proper department or agency, and covering both the Los Angeles Outer Harbor and environs, and also the Rancho Golf Course. It has also been contemplated that either you or one of your agencies would furnish the actual development of drilling," and so forth.

This letter indicates that some time previous to the date of the letter that an understanding of some kind was reached between Mr. Arditto and Mr. Pauley relating to the subject. Could you tell us anything about that?

A That was over a period of considerable time, Mr. Allen. It started out at least six or seven months before that, before this letter was finalized, or formalized. We had been looking in that general area for some considerable time.

Q And had Edwin W. Pauley filed an application of some kind with the Board of Harbor Commissioners on that property? Let's see, I will show you a copy of a letter dated December 29, 1955, and ask you if you can identify that?

A Yes, sir.

Q And then another one dated July 17, 1956.

A Yes, sir.

Q And I take it that both of these were sent by Edwin W. Pauley to the Los Angeles Board of Harbor Commissioners about the dates they bear?

A Yes, sir.

Q All right. We will mark them as exhibits.
(Letters marked as exhibits.)

THE WITNESS: Mr. Allen, can I interrupt a second?

Q Yes.

A And have the privilege of making one statement?

Q Go right ahead.

A I would like the record to show that I am appearing here today after Edwin W. Pauley was subpoenaed and that he explained to your investigators, rather, to your

associates on the Committee, to your consultants, that he had had a prior commitment out of town, out of the country. And that he would change his itinerary to be here, if it was necessary, but he would make me available to answer any and all questions that were pertinent to this hearing.

He is anxious that the record be such that you can make your proper recommendations, and he wants to help. In the meantime, I am here for that purpose. But I would like to have the record clear that Edwin Pauley didn't try to duck the meeting.

CHAIRMAN ALLEN: No. I would like to make it clear also that Mr. Pauley has been very cooperative with the Committee and we understood that he had planned this trip previously. Mr. Pauley has been very helpful to us.

THE WITNESS: Thank you.

CHAIRMAN ALLEN: (Q) Getting back to these letters, would you tell us approximately when discussions first took place between Mr. Arditto and Mr. Pauley regarding joint lease or interest in a lease on either the Outer Harbor Area or the Rancho Golf Course?

A Approximately six months before that first letter that you referred to.

Q That is the letter of April 25, 1956; about six months before that?

A Yes. Yes, sir.

Q Which would be in the fall of 1955?

A Yes, sir.

Q And these letters, the letters of April 25, 1956, and another letter of April 31, 1956, also signed by James J. Arditto and Edwin W. Pauley, which I will hand you, both recite that Mr. Arditto and his associates would have an interest in this lease application described as a carried working interest. It was first to be 12%, and then later reduced to 8, I believe.

A That is correct.

Q And can you tell us what was meant by that term, carried working interest?

A If you will notice, Mr. Allen, there on that first letter where the insertion is made, it says, "After repayment, or after recoup of costs."

Q Right.

A That means the carried interest that we proposed that these gentlemen should have would be after we got all of our costs back. And then they would come in as a part of the net profits deal. That means that in the first instance there that they would have been entitled to, what is that, 12%?

Q 12% in the letter of April 25.

A That's right. Later reduced to 8% then.

Q August 31 it was reduced to 8%.

A That's right. And that means that they would be

originally in the original letter entitled to 12% of the profits after we got all our money back, and in the latter letter 8% of the profits after we got all of our money back.

Q And was Mr. Arditto or any of his associates to advance any of the costs?

A No, sir.

Q Were they to perform any services?

A They were. They were to work just as hard at this thing as we were. You must understand that Ed Pauley is an independent operator. He doesn't have the large, vast staffs that some of the larger companies have that we have to compete with, and we were just happy to have a firm of lawyers go to work with us on this situation.

Q What kind of services were they to perform?

A They were to do what we asked them to do, to service all of our applications, and to follow all of our applications through and help us wherever they could.

Q Did Mr. Arditto or Mr. Waters prepare any applications involving this --

A Yes.

Q -- Outer Harbor Area?

A Yes, sir, on the Outer Harbor Area.

Q What was it they prepared?

A We had a series of applications to the Harbor Commission. They sat in with us and consulted with us as lawyers to do it not as our lawyers, but as lawyers themselves.

We had a series of applications to the Fish and Game Commission, to the Coast Guard, and to the State Lands Commission.

Q That is relating to other property than the Outer Harbor?

A No, sir, that is relating to the Outer Harbor only.

Q You had meetings with the State Lands Commission on the Outer Harbor?

A Yes, because we asked from the State Lands Commission at the time a permit to do seismograph work that didn't localize it just right there. It started up the Coast, as I remember, at Point Conception and went down to the boundary, I think it was, between Los Angeles and Orange County.

Q Did you get that permit?

A I think we -- yes, sir. That was -- we did shooting out there beyond, in addition to doing it right inside. Interpretive seismograph work, I understand, cannot be localized by shooting one area. It has to start way over here and end up way over there.

Q And Mr. Pauley, I take it, was interested in other leases on this property than the Outer Harbor?

A Oh, yes, indeed.

Q Was Mr. Arditto getting an interest in these other leases?

A No, sir.

Q None at all?

A None at all.

Q Only the Outer Harbor Area?

A Only the Outer Harbor Area, yes, sir.

Q And did he appear at the Lands Commission on behalf of Mr. Pauley at that time?

A No, but his staff did. He had members on his staff who did. Now, pardon me. I don't know whether he appears or not, but I know members of his staff did.

Q Could you give us the names?

A Carlisle Linton is the only one I know of.

Q And did Mr. Linton represent Edwin W. Pauley in getting this seismographic permit?

A He worked for Arditto.

Q Did he appear for Mr. Pauley at all?

A I don't think he appeared at all in behalf of Mr. Pauley, except once in Sacramento before the State Lands Commission when I was there with one of our attorneys also.

Q All right. Aside from getting this permit from the Lands Commission, what other services did Mr. Arditto or his group render?

A Well, all of the rest of the permits we made, all the other applications, I don't know whether the proper word would be serviced, or not, but they are the ones that

did the leg work.

Q On other applications?

A Practically all of them, yes, sir, that concerned the Outer Harbor.

Q Other applications concerning the Outer Harbor?

A That is right.

Q Such as what?

A Well, the applications that we had to get from the Coast Guard. The one we had to get from the --

Q What did you have to get from the Coast Guard?

A We had to get a clearance to do our exploratory work, which was seismograph work. You understand, of course --

Q On the Outer Harbor?

A In the Outer Harbor, yes.

Q And you got a permit from the Coast Guard?

A Yes, sir.

Q Any other applications?

A Fish and Game was the same way.

Q Same thing?

A Yes, sir. And, of course, the Board of Harbor Commissioners themselves.

Q Now, these letters that are signed by both parties, Mr. Pauley and Mr. Arditto, do not describe these services that I can find.

A I think that is right. I think that is right. But that was the reason that we finally, over a period of six

months, finally came to this determination. We don't have the money to lay out cash-wise that some other people do, nor the staff. These fellows, if we went in and drilled a dry hole, that's it. They got nothing. Nothing.

Q Does Pauley have other attorneys, too?

A Yes, sir.

Q Who?

A Well, if you want to get the attorney book there, I will go through it and check. There are lots of them. That is one of our retrenchment deals for this year, trying to figure out how we are going to get along without so many attorneys. It costs a lot.

Q Had Mr. Pauley given other attorneys a carried working interest in leases?

A Not down here.

Q Anywhere.

A I wouldn't be surprised.

Q Any that you know about?

A Not definitely, no.

Q Is it your understanding that in addition to Mr. Arditto that there were associated on this proposal jointly Mr. Arditto, Mr. Waters, and Mr. Dietrich?

A Yes.

Q And was that true from the time the first association arose between Mr. Pauley and Mr. Arditto on this Outer Harbor?

A I think that's right, yes, sir.

Q Those three men were jointly in it together?

A That's right, yes, sir.

Q Do you know what business Mr. Dietrich is in?

A Well, at that time I think he was Executive Vice President of the Hughes Tool Company, among other things.

Q Is he a lawyer?

A Well, he may be, but we knew him as Executive Vice President of the Hughes Tool Company, and as a friend of long, long standing of Mr. Pauley. They have known each other for many years.

Q You are acquainted with Mr. Dietrich, is that right?

A Yes. I have met Mr. Dietrich.

Q And what services was Mr. Dietrich to perform for this?

A Well, the services were to be performed as a group. The original offering of, I say the original conversations of this transaction started with Mr. Dietrich coming to Mr. Pauley and telling him about the work that they had -- I say "they", that he and his associates had been doing in the Harbor Area, and wanted to know if he wanted to get in.

It just so happened that Mr. Pauley had been looking at the thing for a number of years. He used to have a

loading ramp down there for his refined products when he was in the refining business.

Q Well, was Mr. Dietrich going to help get any of these permits?

A No, I don't think so. He brought it to Mr. Pauley, and as a group they were to share what there was out of this. I have no idea whether they were to split it 7 to 1, or 8 to 1, or 10%, or what.

Q How about this Rancho Golf Course, did you continue this association between Mr. Pauley, Mr. Arditto, and so forth?

A Yes, sir. They performed the same services as in connection with the Outer Harbor. And our agreement provided, we were anticipating that both these areas would probably become some day competitive bids, our arrangements with them were if there was any competitive bidding, that was it, unless we mutually agreed otherwise, and that meant if they wanted to put up their part of the money, that is all right. They could put up their part of the money.

We bid on the Rancho Golf Course, but like every other time we bid we were a little bit low. So we didn't get it.

And incidentally, we served Mr. Arditto and his associates notice that because we were bidding on the Rancho Golf Course, they were out, and our agreement on Rancho was no longer in effect.

Q Notified them that your agreement was no longer in

effect?

A That is right, as far as the El Rancho.

Q Because you were bidding, or were not bidding on it?

A We were bidding.

Q Why didn't their interest carry it through with the bidding on the Rancho Golf Course?

A They didn't put up their money.

Q Well, did they have a carried working interest in that also?

A They would have had, had they been able to negotiate a lease on it.

Q I don't understand. If you had been able to negotiate a lease in the Rancho Golf Course, they would not have had to put up any money?

A That's right.

Q But, if it is competitive bidding, they didn't get their 8%, or 12%, or whatever it was.

A That's right. Yes, sir, that is correct.

Q Didn't they perform the same services either way?

A Sure, until the time it came up to put up a very, very large and substantial amount of money.

Q Well, was it part of their services to do any of the negotiating for the lease?

A Yes.

Q Directly with the City official?

A Not necessarily, but to tell us, as lawyers, to tell us what we should do. They attended the meetings of the Parks and Recreation Committee, and told us what was going on afterwards.

Q Let me see if I got this straight. If you were able to bid on the El Rancho Golf Course on a negotiated lease with the City, Arditto and his group would get a percentage of 12 or 8%, whatever it was, for the services.

If, on the other hand, you had competitive bidding on the El Rancho Golf Course, the only way Arditto and his group would get a percentage would be to put up their cash along with Pauley, is that right?

A That's right. And, Mr. Allen, I might interject this: The reason we made that arrangement that way was because we, ourselves, were drilling a well in close proximity to the Rancho Golf Course. I say "close proximity", it started out down, it was drilled in the City of Culver City, and we didn't know from time to time, from time to time, what the evaluation that we placed on that Rancho Golf Course was going to be. And nobody else knew but ourselves.

The hole was what we call tight. No information put out on it at all. And when the golf course was put up for a bid we had our own ideas, we didn't want anybody to know what our price was that we were offering the City

through the Parks and Recreation Department.

Q Now, on the Outer Harbor did the same understanding apply, that Arditto and his group got the 8% only if it was a negotiated lease?

A Yes, sir.

Q Is it set forth in these agreements anywhere?

A I believe so. Maybe it isn't. Maybe it isn't. I was under the impression it might have been.

Q If you can pick it out in a hurry --

A Let me look. I guess it must have been some other arrangement we had with them.

Q Now, after the date of this last letter, August 31, 1956, was Standard Oil brought into this; joined in the application?

A Yes, sir.

Q And what were the respective interest of Standard Oil, Pauley, and the Arditto group?

A I think that the Standard Oil was to have a 54% interest in it. And ourselves, I say ourselves, Pauley was to have a 46% interest, which included the 8% interest of the three men, Arditto, Waters and Dietrich.

Q The Arditto group was to have 8, Standard 54, Pauley the balance, is that right?

A Yes, sir. Yes, sir.

Q And was that document filed with the Harbor Commission showing the group association?

A I don't believe that it was, Mr. Allen, showing the percentages. But, the application, the final application we made was executed by Standard Oil Company, by Mr. Pauley, and by Mr. Dietrich and Mr. Waters and Mr. Arditto.

Q But the percentages were set forth in an agreement between the three groups that was not filed?

A I don't believe it was.

Q Could you get us a copy of that agreement?

A Sure. I might say this: if it ever got down to the real negotiating, that all those respective percentages certainly would have been shown.

(Witness hands documents to Chairman Allen.)

Q Thank you. We have a letter addressed to the Standard Oil Company of California, dated September 11, 1956, bearing the signatures of Edwin W. Pauley, James J. Arditto, and Frank J. Waters, Noah Dietrich, and somebody on behalf of Standard Oil Company of California, which we will mark as the next exhibit.

(Documents referred to marked as exhibit.)

MR. ALLEN (Continuing): Do you want this returned?

A No. I prepared that for you as a result of the request of your staff.

Q All right. Now, will you tell us your understanding of this agreement as to whether Pauley's interest was being carried?

A Yes. Pauley's interest was being carried in the first well.

Q Standard was putting up the money?

A That is correct.

Q And was Pauley to reimburse Standard for that?

A Out of production, yes.

Q And how about after that?

A Pauley would put up all the money for his share.

Q And after the first well Pauley would not be carried?

A That is correct.

Q And how about the Arditto group, were they being carried?

A Well, from the looks of that instrument they probably weren't. They probably didn't know it, but we weren't going to carry them either.

Q You were not going to carry the Arditto group under this agreement, then?

A Well, that agreement provides for Pauley to put up a 46%, and the 46% would include the Arditto group. We never told them yet, but when the time came we expected them to put up their money also.

Q One paragraph in here states that "Between the undersigned nothing contained in this agreement shall, insofar as there may be conflict, affect the rights, duties, and obligations of the undersigned and of prior existing

written agreements and the provisions contained therein shall control any such conflict."

I assume that under that language that as between Pauley and the Arditto group the previous agreements would prevail?

A That is correct. I was probably a little hasty in telling you that we weren't going to put it up. We were going to renegotiate this thing because the thing that entered -- I say renegotiate, we were going to attempt to because the thing in our minds for sure when we made our deal with Mr. Arditto and his group, and I presume theirs, because we discussed it, and that is that the major, main commitment of the whole thing was to drill one well. And they had the right to convert that 12% or 8%, whatever it was, within 30 days after we furnished them an electrolog, the final electrolog of the well, if they wanted to. So they would have the advantages of any tax accruals that they might have benefit to.

Q They had an option to convert the carried interest to a working interest by putting up the money, is that right?

A That is correct, yes, sir, and also of picking up a couple of additional percentages as far as working interest is concerned. And all of that was to come out of this 46% of Mr. Pauley.

Q I think you clarified this arrangement as far as

the Rancho Golf Course is concerned. On the Outer Harbor proposal which actually never went to a lease --

A That is correct.

Q -- if you negotiated the lease, the Arditto group would get this 8% interest, right?

A That is correct.

Q If you had competitive bidding, they would not be carried. They would have to put up the money?

A I think that is right. I thought maybe it might have been in here. Oh, here you are. Number 10 in this letter, Mr. Chairman.

Q Which date is that letter?

A The one that you have before you there, the agreement between Standard and Pauley and et al. It is on the third page.

Q Oh, I see, "Agreement terminates if this bidding on sealed bids." Right?

A That is correct. Yes, sir.

Q Now, is that provision in the previous arrangements between Pauley and the Arditto group?

A Well, I thought it was. It is some place along the line because we wrote them a letter when we bid on the Rancho and said you are not in, period. The thing had become by that time -- by that time the thing had become much more expensive, in our minds, than it would have been otherwise as a result of this work that we did on that

wildcat well of ours. That well itself ran over half a million dollars and was a dry hole.

Q Now, if you had bidding on competitive bidding on the Rancho, or on the Outer Harbor, the Arditto group had still rendered these same services, hadn't they, of getting these permits, and drawing up papers of various sorts?

A That's right, but the end product was different.

Q If it is a negotiated bid, they get an interest? If it is sealed bidding, they don't get any?

A That is right.

Q Well, what services were they going to render, were they going to render any different services on a negotiated bid than on sealed bidding that would call for them to get this interest?

A No, sir, not a bit.

Q Same services?

A Same services.

Q Well, why would they get an interest on one arrangement and not on the other?

A Well, the main reason was, we never know, as a rule, until the morning when the bids are opened what we are going to put in that bid offer on a competitive bid basis.

Q On the Outer Harbor application was the Arditto group to do any negotiating for that?

A For what?

Q The lease.

A Well, they were to represent us and do the leg work.

Q What do you mean by leg work?

A Well, following through all the applications for the different permits.

Q Well, they did that anyway, got the permits?

A Well, they didn't get the permit. The permit came from the different Boards or Commissions.

Q Didn't you say they got the permits from the Coast Guard, Fish and Game Commission, and the Lands Commission?

A Well, yes, but they were granted -- they were not granted by them. That is what I am differentiating.

Q Did the Arditto group do the leg work to get those permits?

A That's right, yes, sir.

Q Were they to do anything more than on a negotiated bid?

A No, sir. They wouldn't have got any money, either, if we had got a dry hole.

Q But how is it they get carried interest in a negotiated bid and not a sealed bid? I don't understand. They did the same work.

A Well, in a sealed bid we don't know until just

the last minute what we are going to put in there. In a negotiated bid we know from day to day what is going on.

Q Well, Mr. Hutchins, I don't want to put words in your mouth, but it looks to me like they were doing this work of getting these permits in any event and that they were getting an interest, a carried interest in this lease application if it was negotiated, and that the interest they were getting was for doing something over and above what you have described in the way of getting the permits.

A Well, I ain't going -- you are not going to put those words in my mouth, because that isn't right.

Q Well, then you tell us what is right.

A Well, they could have come in --

Q That is just what it looks like to us sitting up here.

A They could have come in on the competitive bid just the same as we were. Over a long period of time the Board of Harbor Commissioners had been letting the bids out on a negotiated basis. Some of these leases I am certain have passed their primary term and are in their secondary term after the first ten, fifteen, twenty years, whatever it was.

We just felt that we didn't have the manpower to take care of all those details.

Q Well, did you ever try to negotiate a lease with

the Harbor Commission?

A Yes, through these people, yes.

Q I mean, without them?

A No, sir.

Q And if it was competitive bidding, sealed bids, the Arditto group would have been on their own?

A They would have been on their own. They could have joined us or --

Q Put up the money?

A -- gone themselves.

Q But, if they had joined you on a sealed bid, they had to put up the money?

A That's right.

Q On a negotiated bid they would have got a cut?

A Well, they didn't get exactly a cut. They got a cut if we get anything.

CHAIRMAN ALLEN: All right. Any other questions?

Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q I would like to clarify it. Both then on the Rancho and on the, is it the Outer Harbor Lease that you had arrangements that if there was a negotiated bid the Arditto group did get a percentage, and if there wasn't, they would, is that right?

A That is how it finally boiled down, yes. One

of the main reasons on the Harbor and the others also, was this: that we wouldn't know, as I explained before, what our bid offer would be until the very last minute. And at that time we were protecting ourselves from many so-called leaks of what we might bid. And as soon as you talk to more than one person, why, there is more than one person who knows what your bid is going to be.

We had the happenstance of bidding on a State lease at one time, and our price was less than \$5000 different from the people that got it. And the boss still sometimes seems to wonder who let the cat out of the bag so that the bids could be that close together.

Q And yet, whether it was a negotiated bid or a sealed bid, they did the same amount of work?

A That is right. Yes, sir.

Q But in one case they get paid and one case they didn't?

A They could come in on the same basis if the thing had been -- if they had bid with us. That is part of the chance they were taking also.

Q Well, doesn't it seem, then, that what they were having to sell, so to speak, was whether or not there would be a negotiation rather than a competitive bidding?

A Not as far as we are concerned. That is one of the chances they were taking. We were bidding and we bid competitive, we don't know -- we bid on many properties

owned by the City, State, Counties.

Q Well, what else did they have to give you?

A For what reason?

Q On a negotiated bid?

A Well, just the same work. There is no difference as far as we are concerned.

Q Yet on the sealed bid they did the same work but didn't get paid?

A They agreed to it with us. It was mutually agreed. As far as we are concerned, there wasn't any difference in the service at all.

Q It had nothing to do with the fact that they might have a little more persuasive power with the Commission, or with the granting of the leases?

A No, sir.

Q Did you ever have anybody else do the same type of work?

A Where?

Q Did you ever have anybody else other than the Arditto group do the same type of work with the Harbor Commission for you?

A No. Not on these applications or any other. This is our first application before the Board of Harbor Commissioners.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Mr. Hutchins, it appears from what you have told us that if you had sealed bids on getting this lease on either the Outer Harbor or the Rancho Golf Course through another City agency, that you took your chances on getting the lease based on the money being offered to the City. But if it was a negotiated lease that you wouldn't get it unless you had somebody with some influence in there who could get it for you.

A No, that is not what I said either, Mr. Allen.

Q I know you didn't say that. I am just saying what it looks like.

A Well, of course, you can take a tree and for one fellow you can make it look light green and the other fellow, it all depends on what kind of glasses you are looking at it through. That was not the purpose of our arrangement with these fellows at all.

Q Was there anything else that you were paying Arditto, Waters, and Dietrich this 8% interest in a negotiated lease for than political influence? Anything?

A We weren't paying for political influence.

Q Well, tell us anything else you were paying them for.

A We were not paying for political influence. We were paying them to do this leg work, just like we would anybody else. We don't have the same size staff some of

these big companies do.

Q But they get paid for the leg work only if it is a negotiated bid?

A That is right.

Q And they didn't get paid at all if it was competitive bidding?

A Well, that just grew out of it. That just grew out of all the negotiations with them.

Q In fact, you didn't even need them if it was competitive bidding, is that right?

A No, no, no, no. That is not necessarily -- that not necessarily follows through.

Q Well, you said they were on their own if it was competitive bidding. I believe you said that.

A We still would have needed them for services, as I say, the leg work in getting these permits for us.

Q Well, would they have been paid for it some other way?

A If we had made that kind of arrangement, yes. As a matter of fact, they could have come in with us on these competitive bids if they wanted to. We called them up and told them we were going to bid on Rancho and asked them if they wanted to come along, and they said no.

Q By agreeing to advance cash to cover the expenses?

A Will you state that again, please?

Q A competitive bid, my understanding from what you

said, they would have to, if they wanted to go along, they would have had to put up their share of the cash?

A That's right.

CHAIRMAN ALLEN: Anything else? Mr. Hanna.

EXAMINATION (Continuing)

BY ASSEMBLYMAN HANNA:

Q One interpretation of what you have been saying occurs to me to be this: There is a certain amount of leg work necessary regardless of whether there is competitive bidding or negotiated contracts, true? A certain amount of leg work has to be done?

A Yes, sir.

Q First of all, they approached you people, isn't that correct?

A That is correct, yes, sir.

Q Is it possible that they offered the leg work as an inducement to get in on the percentage offered them on the negotiated contracts?

A That's right.

Q In other words, it seems to me one interpretation is that their gamble was the leg work itself. And that if it came out negotiated contract, they got the percentage that way. And if it didn't, then the leg work was, you might say, an expendable item with them and they came in on a cash basis with you, if at all?

A Well, that is the way we looked at it. I don't

know how they looked at it. It is just like buying a horse, or buying a couple of bales of hay from a farmer some place. There is no reason, sometimes, for the results of the trade. They just agree in the conversation.

Q Well, I guess that is true if you understand horsetrading. Maybe you can understand some ways that horsetraders trade. In this instance, I suspect that you would have to know oil trading to know how these trades were made.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Well, what were you buying here? On a negotiated bid they do the same work they do on a sealed bid. A sealed bid they have to put up their share of the cash, the negotiated bid they don't have to put up anything and get an interest. What were you buying that was different on the two of them?

A As far as I am concerned, as far as we are concerned, there wasn't any difference. Just one of those parts of the trade.

Q Just give them the 8% on the one deal, and the other you would give them nothing. They have to pay their own way. There is no difference in what they produce?

A Well, that is the way it turned out. You will notice this says in here, "The parties hereto mutually agree to the contrary." Well, we just said you ain't in,

that's all, in the case of the Rancho.

CHAIRMAN ALLEN: All right. Anything else? All right, that's all, Mr. Hutchins. Thank you very much.

ASSEMBLYMAN FRANCIS: Mr. Chairman, I have on question.

CHAIRMAN ALLEN: All right, Mr. Francis.

EXAMINATION (Continuing)

BY ASSEMBLYMAN FRANCIS:

Q Mr. Hutchins, you told Assemblyman Sumner that you have never had this type of arrangement like you have had with the Arditto group before the Harbor Commission. Have you ever had this type of arrangement with any Governmental Agency, whether it was State or local, that you had with the Arditto group in this particular transaction?

A Yes, sir. We have had similar arrangements where we go out in public domain and under the Public Lands Leasing Act we will have people that will go out and get leases together for us which later become a part of the Federal unit and are drilled and explored as a Federal unit. And out of that those people get an overriding royalty, or a part of the cut. I use "cut" because the Chairman used it.

But they are compensated that way.

ASSEMBLYMAN MILLER: This is what you generally call a lease-hound's override?

A That's right. It is the same thing.

ASSEMBLYMAN FRANCIS (Q): Well, that would be somewhat different, though. As I understand the understanding or arrangement you had with the Arditto group in this transaction, if it was a negotiated lease, then they would get this interest. But if it turned out to be a competitive bid, then they would receive nothing. Now, has there been the same type of arrangement in any previous transactions before any governmental agencies?

A I don't believe so. I don't believe so.

ASSEMBLYMAN FRANCIS: Thank you, Mr. Hutchins.

THE WITNESS: Your question, I would like to point this to your question. Again it is just one of those things that comes up in the trade. We just say --

ASSEMBLYMAN FRANCIS: (Q) Well, what I was trying to find out was, was this a normal procedure, or whether it was something that your company, or Mr. Pauley, had actually attempted for the first time in his long years of experience.

A Well, another thing with Pauley, we are a little guy fighting these big guys all the time. It ever gets sometimes that we just can't get rid of our oil because they don't like us. Just won't buy our oil from time to time. That is when the shoe gets pretty tight.

Q But this is the first time you have had this arrangement with any party or with any governmental agency?

A Yes, sir, that's right, where this particular part of it is concerned. If it had been any other carried interest deals, there is no particular reason for the guy to get it. When I was with the Barnsdall Oil Company there was a guy by the name of Calhoun that negotiated a lease on Newhall farm and ranch property that has turned out to be one of the most fabulous oil fields in the State. And he got a 20% carried interest out of it.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q For negotiating it?

A Yes, sir.

Q Isn't that what you are giving the Arditto group this interest for?

A That's right. This happened to be land that wouldn't go to bid except if anybody could have got it if they wanted to.

Q And Arditto and his group were getting this interest for negotiating this lease?

A No. No. I didn't say that. I said for doing the work. I mean, they did the work, the leg work, particularly.

Q Negotiating the lease, isn't that right?

A No, no. We did the negotiating ourselves. Everything was signed by ourselves, except the final application

to the Board of Harbor Commissioners. Everybody's signatures was on that, as you know. It is a matter of public record.

Q Well, why did this man that you just described get this override?

A I don't know. That is part of the deal.

Q Well, he was paid for negotiating it, wasn't he?

A No. It was a little different. It was a little different in his case. He had a hand and tie on an option on his property, on this property that he submitted to Barnsdall.

Q They had to pay him an interest to get the oil, isn't that right?

A No, because there had been a couple of dry holes drilled on this property. If there had been dry holes, he would have still got nothing out of it.

Q Well, he was paid a percentage in the lease, isn't that right? He took his chances on there being oil there.

A He was paid a percentage of the net profits. That is what is called carried interest.

CHAIRMAN ALLEN: All right. Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q I just wondered then if you considered Mr. Arditto

and his group to be lease-hounds on this thing for you?

A About the same thing, yes.

Q And what a lease-hound has to sell you is the negotiation for a good lease, isn't it?

A Well, he can say that, but that is up to the principal to determine.

Q Well, isn't that what a lease-hound is? I may be wrong. You are in the business.

A No, you ask me that last question again, will you, please?

Q What is a lease-hound?

A Well, I have seen some pictures of cartoons of one. But, normally speaking, these lease-hounds they always think they got a better deal than you have.

Q Oh, I see. Well, if the term is in any way derogatory, I don't mean to ascribe it to anyone that has been in this hearing.

A Well, I don't want to intimate that lease-hounds are not worth their salt, either, because most of the deals we have come in through outside sources.

Q But, that is, in effect, the terminology, as I understand it, is that a lease-hound is a person who will get you a good lease, isn't that right, and offer it to you and tell you this is a good deal, and then you take it from him and he gets a percentage for the work that he has done?

A Yes and no. We expect them to get a good lease. And if he doesn't, he ain't in. That's all.

Q All right. And if he does, then he gets a percentage?

A It is up to us to determine whether it is a good lease or not, though.

Q And if he gets you a good one, and you like it, then he gets a percentage, isn't that right?

A That is right.

Q And that is the same thing that happened here, isn't it? That is the same basis for this deal.

A Sure. We weren't buying any political influence, or we weren't buying any special interest they might have had with some particular person.

Q You weren't buying any political influence, but if they could get you a good lease, why then you would give them a percentage, is that right? And do so with negotiation rather than sealed bids?

A I think that is right, yes.

Q But maybe what they had to sell, for all you know, was some way of getting a better lease with somebody?

A Well, I wasn't -- we weren't concerned with that at all. As a matter of fact, we told them, Mr. Pauley told them and I told them we were going to have no she-nanigans at all.

ASSEMBLYMAN CRAWFORD: I have a question.

CHAIRMAN ALLEN: Mr. Crawford.

EXAMINATION (Continuing)

BY ASSEMBLYMAN CRAWFORD:

Q Why did you feel that it was necessary to tell them that there were not going to be any shenanigans?

A Well, just one of those things that came along, because - don't you fellows get mad at me - because they were lawyers.

Q I am just wondering if past history indicated that a warning was necessary?

A I beg your pardon?

Q I was just wondering if past history indicated that a warning was necessary?

A Oh, no. No. We always tell anybody that. We always tell anybody that does any work for us, including our own people that are on our own payrolls that are paid a salary, just be careful what you do.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Well, Mr. Hutchins, I take it from the fact that you and Mr. Pauley entered into these agreements to give Arditto and his group an interest, 8% carried interest, that you considered their services to be worth something, and that much?

A That is correct. That is correct.

Q And you paid for it, whatever it is worth?

A That is correct. Especially if we got oil. If we didn't get any oil, they didn't get anything and we didn't too.

Q On the other hand, if the lease was issued on competitive bidding, sealed bidding, the services of the Arditto group were worth nothing to Pauley?

A No, that doesn't follow at all. That is just one of those things that came out on negotiations.

Q You told us they weren't going to get paid anything for their services in the one case?

A That's right. That is just part of the deal.

Q In the other case they were getting an 8% carried interest for whatever their services were worth?

A That is right.

Q And it must have been worth that much?

A Well, might have been worth a whole lot more than that, I don't know. Maybe not that much.

Q Now, would I be correct in stating that from the geologists' report that this Outer Harbor Area is probably the best oil propsect of those three areas marked on the chart?

A Sure, if you think so.

Q I didn't say so. I am not a geologist. I am asking you.

A Well, you said would you be correct in stating

that, but from our viewpoint, I don't know. There hasn't been any wells drilled yet.

Q Well, what do you think?

A I don't know. I will tell you this. One reason I am telling you this is because the permits that we got to do the siesmograph work there contain a very strict nondisclosure clause. And in the audience back in here are some of our competitors also.

Q I don't want you to disclose any trade secrets. I am not asking for that.

A Well, to begin with --

Q Let me put the question another way. There has been some reference to a Geis Report, which I think is a public document, and the Stanley and Stolz Report which is also a public document. I assume you have seen both of those, have you?

A Our engineers have, yes.

Q Do they indicate, limiting your answer to those documents only, did they indicate that Outer Harbor was probably the best bet?

A Well, I would say that particularly the Geis Report indicates it has some extremely interesting possibilities.

CHAIRMAN ALLEN: All right. Anything more? All right, thank you very much, Mr. Hutchins.

THE WITNESS: Thank you, gentlemen.

CHAIRMAN ALLEN: Mr. Scott.

MR. MATTSON: My name is Marcus Mattson, Attorney for Standard Oil Company, and I would like to sit in on this, is I may.

CHAIRMAN ALLEN: All right. Mr. Scott, raise your hand.

LAWRENCE E. SCOTT,

called as a witness by the Committee, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Your full name and occupation?

A Lawrence E. Scott. I am Divisional Land Supervisor for Standard Oil Company in Southern California.

MR. MATTSON: May I interrupt just a minute?

CHAIRMAN ALLEN: Yes, go right ahead.

MR. MATTSON: My primary purpose in being here is to distribute this statement which Mr. Scott would like to make in the opening, with your permission.

CHAIRMAN ALLEN: Go right ahead when you are ready, Mr. Scott.

THE WITNESS: I want to get a copy. Let me have a copy.

It has been indicated that the Subcommittee is interested in the procedure involved in obtaining rights to explore for oil in the submerged lands at Los Angeles

Harbor. I should like to outline, therefore, the procedure required and followed in connection with the application to which Standard Oil Company of California was a party to explore for oil in the Inner Harbor. The steps taken, and those anticipated, were and are as follows:

First, in February of 1956, Standard obtained from the State Fish and Game Commission the necessary permit to engage in exploratory seismic operations in a portion of the Los Angeles Harbor. This application and the permit have, of course, at all times been matters of public record.

Second, in February of 1956, Standard applied to the Los Angeles Board of Harbor Commissioners for a permit to engage in said exploratory seismic operations. The Harbor Board referred the matter to the Board of Referred Powers and the Board of Referred Powers granted the permit. Here again, the application and the permit have at all times been matters of public record in the files of the Harbor Board and of the Board of Referred Powers.

Third, in February of 1956, the seismic operations covered by the two foregoing permits were carried on. These operations were not only apparent to anyone interested enough to look, but were also the subject of comment in the public press and were even shown on television. It is safe to say that every oil

company active in the Los Angeles basin knew of Standard's interest in the Los Angeles Harbor as early as February, 1956.

Fourth, on July 6, 1956, Standard filed with the Los Angeles Harbor Commission its application to obtain the right to explore for and produce oil from the designated area of the Inner Harbor. This application of July 6, 1956, was, of course, a public record open to all and was a public notice of the exact basis on which Standard was willing to deal. Other possible applicants thus had the advantage of early available information of Standard's specific proposal. Competitive bidders do not normally have this advantage. At the time of filing this application, no one but Standard had any interest, direct or indirect, in Standard's application.

Fifth, on July 25, 1956, Standard's application was referred to the Land and Leasehold Committee of the Los Angeles Harbor Commission.

Sixth, under date of November 23, 1956, Standard amended its application for the sole purpose of naming as applicants, with Standard, other parties with whom Standard had joined in this venture subsequent to its original application. These were all the parties interested in this application directly or indirectly. This amended application was also,

of course, a matter of public record open to all. Seventh, on November 28, 1956, Standard's amended application was referred to the Land and Leasehold Committee of the Los Angeles Harbor Commission. It, I believe, recommended dealing on the basis of Standard's application.

Eighth, almost nine months having elapsed since Standard had publicly displayed its interest in the Harbor and over four months having elapsed since Standard had publicly indicated the specific terms it was willing to offer for a lease on the Inner Harbor, the Los Angeles Harbor Commission met and ordered notices sent to all of the 20-odd persons or corporations who had theretofore evidenced an interest in the Inner Harbor. Pursuant to this direction and on December 20, 1956, formal notice was mailed to 20-odd persons or corporations that their applications should be filed on January 2, 1957. Twelve of the 20 made no response. Two said they were not interested. Five proposals, in addition to the one by Standard, were received. Two who filed no proposal and one who filed a proposal asked for additional time.

Ninth, on January 9, 1957, the Board directed that the City Attorney proceed with the preparation of the necessary lease.

Tenth, had the matter proceeded, it would have then been necessary for negotiations to take place with the City Attorney upon the form of lease. This would have required some time because of the complexities of furnishing drill sites.

Eleventh, it would have then been necessary that the entire matter be referred to the Board of Referred Powers, which Board was charged with the duty of making an independent review of the entire matter. Any time before final action by the Board of Referred Powers, any interested oil company or oil man could have filed its application and the Board of Referred Powers would be required to consider and determine whether any new application or any already filed was higher than Standard's. There is, furthermore, no practical possibility that any responsible offer higher than Standard's could have been disregarded.

Twelfth, if the Board of Referred Powers had approved dealing on the basis of Standard's proposal, it would have been necessary that the matter be referred to the City Council for its consideration and its approval or disapproval.

Here again, any oil man or oil company would have had the opportunity of presenting a higher proposal and no such higher proposal could have been, even

at this point, disregarded.

Thirteenth, it would have been then necessary that the action of the City Council survive the right of the Mayor to veto the proposal. Even at this late date, had a higher responsible proposal been presented, the Mayor would have had no alternative but to veto.

Fourteenth, the lease must then be published for thirty days in the same manner as ordinances of the City.

Fifteenth, had Standard's proposal survived all of the foregoing, it would have still been subject to the possibility of referendum filed within thirty days after the Council's action. As the Dodgers have recently seen, a referendum on City Council action is not a remote possibility and could have been accomplished by any oil interests sufficiently serious about their desire to drill in the Inner Harbor.

While some might say that this procedure is cumbersome, no one can say that it has any tendency to foreclose any competitor from an opportunity to out-bid any other proposer.

BY CHAIRMAN ALLEN:

Q Mr. Scott, what is your function with Standard Oil Company?

A My function is I am the Division Land Man charged with the responsibility of negotiating and preparing to the point of execution all contracts within Southern California.

Q And I take it you are familiar with these matters you described in the statement you just read?

A I am fully aware of them, yes, sir.

Q Were you here yesterday and again this morning when these other oil company representatives testified they didn't have any opportunity to bid on this property?

A Well, Mr. Allen, I was here this morning and I will be very frank, and yesterday, I am very surprised. I commenced getting ready in 1955, making a review of all available lands in the Harbor Area. I secured copies of all leases from the Harbor Department, and also when they didn't have full copies, went to the press and secured copies of all ordinances, since these leases are in ordinances. And I prepared a map. I maintained a constant watch on all newspapers that would probably carry any notice or word of any competitor's action in this area.

I cannot believe that any major oil company, or any oil man interested in an area, would wait until the last minute before he could find out whether at least the land was open. It is inconceivable to me that an aggressive land man, or a land department, would be that dilatory and that negligent in getting the matter together, the

information together, for their decision by their management, if and when it became necessary to make a decision.

Q And I take it from your statement, and what you have just said, you are convinced that the oil companies submitting the best offer would get the lease to work with?

A Mr. Allen, I would like to say, it would just be foolish to think that anyone could acquire a lease from the City of Los Angeles without making the best proposal. It is inconceivable. It is impossible.

Q Well, I will show you a letter dated October 31st, addressed to Standard Oil Company, signed James J. Arditto, and also one of November 7, addressed to Standard Oil Company, bearing the signatures of Kadane & Sons, Standard Oil Company of California, James J. Arditto, Waters, and Dietrich, and ask you if you are familiar with those?

A Yes. These came from our files. Didn't our counsel furnish them to your counsel?

Q And were you familiar with those documents at the time they were signed?

A I am fully familiar with the documents, yes, sir.

Q Isn't it correct that under those documents that Mr. Arditto, Mr. Waters, and Mr. Dietrich were receiving a carried 8% working interest in the joint application to which Standard Oil was a party?

A We were a party to it, they were a party, they

were on the Inner Harbor.

Q And were you present when Mr. Arditto testified that under this he was not required to produce any of the financing to start the operations?

A I understand that that is his agreement with the Kadaness, yes, sir.

Q And is it correct also that under that agreement to which Standard Oil is a party that if the Kadaness withdrew that Standard Oil would carry the Arditto group?

A That is correct. Let me state it another way. In any operating agreement where there are several parties, or two parties, if and when a group wants out, or has had enough and wishes to surrender, they notify an offer to the other party, usually 30 days, or 60, depending upon the contract, and the other party has the option of whether to accept that reassignment or that interest.

At that time if we had elected to take a reassignment, then we would have assumed any burdens or obligations against the Kadane interests.

Q And that would include carrying the Arditto group without their putting up any costs?

A If we had accepted the reassignment, that would have been true, yes, sir.

Q Doesn't that, don't those agreements require Standard to --

A It does not require Standard to accept the

assignment, no, sir.

Q Well, then, if the Kadane group withdrew, under those agreements wasn't Standard required to carry the Arditto group along?

A Only if we elected to go ahead and surrender with the Kadaness. And also if Kadane offered the reassignment to us, or if we offered the reassignment to Kadane, either party elected to not accept the reassignment, then both parties, if Kadane and Standard both wanted to withdraw from the lease, then the Arditto group would also have the right to take an assignment of the whole lease.

Q And your understanding is that under this arrangement the Arditto group is not required to advance any of the costs for the drilling operations?

A I understand that, yes, sir.

Q And how did the Arditto group happen to get this carried interest?

A As you have heard them testify in the last two days, they were partners with the G. E. Kadane & Sons many months before we finally formulated a joint venture agreement.

Q And what were they doing under this agreement to get this 8% interest?

A Doing for what? They were representing and helping the Kadane group in securing an application and permit on the City lands.

Q Well, why would Standard Oil join the Kadane & Sons and the Arditto group with the possible obligation of carrying the Arditto group?

A Well, that obligation, there is no obligation to us to carry them, only if the land is offered to us on a surrender basis. At that time you make your mind up whether or not you are going on with it. If you get a surrender from one group, there is a good chance that the whole venture is unprofitable. And whether or not we would ever carry them is problematical and a decision that would have to be made much later.

Q Can you tell us what services the Arditto group is supposed to render under this operation?

A To who, Mr. Kadane?

Q Anybody.

A Well, they were representing in partners with the Kadane group when we first discussed this matter with the Kadanases.

Q Were they rendering any services to Standard Oil Company?

A They were not.

Q Well, if these leases were being given to the oil company making the highest and best bid, why was it necessary for anybody to associate the group with the carried interest where they put up no money?

A We put up our share of the money, the Kadanases put

up the rest of the money for the balance.

Q Well, I still don't understand. When were you first contacted, or Standard Oil Company, with regard to associating either the Arditto group or the Kadane & Sons?

A The first contact that I recall was probably either the last week of July, I think some time in the latter part of July, one of the Kadane representatives was flying up to San Francisco on a plane and asked who to talk to and they talked to the Manager of Lands in San Francisco about the possibility of Standard joining with them. They were told that they would have to negotiate any such venture in Los Angeles with me.

Q That is in July of '56?

A I believe it is, yes, sir.

Q All right. And then did you see anybody from either the Arditto group or Kadane & Sons?

A I certainly did. I saw Mr. Jack Kadane, Mr. Mike Kadane, and I had many, many conferences with them and with the Arditto group, yes, sir.

Q When was the first time you talked to either Mr. Arditto, Mr. Dietrich, or Mr. Waters on this matter?

A I have never met nor seen Mr. Dietrich.

Q And how about Mr. Arditto and Mr. Waters?

A Some time in the first part of August, and I can't say when.

Q That is of '56?

A Yes, sir.

Q And did anybody else from Standard Oil Company conduct any of these negotiations with either the Kadane or the Arditto group?

A No, sir. I am the only one that conducted them.

Q They are all conducted by you?

A Yes, sir.

Q And did you ever offer the Arditto group, or any of the members, an attorney's fee for their services in this regard?

A I never offered it, no, sir.

Q Did you ever suggest it?

A At one time I called Mr. Frank Waters and asked him to discuss a possibility with him. That was way back in July. And at such time he advised me later that he was already committed and had already been joined in with another group.

Q The Kadane group?

A The Kadane group. And the matter ended at that time.

Q That is prior to the time Standard was contacted by the Kadane group?

A No, sir. I do not believe so. I think we were contacted first by the Kadaness. But that was in San Francisco, and then I got a phone call from my boss in San Francisco and then following that this whole chain of events

happened.

Q And it was some time in July of 1956, or what month, that you talked to Mr. Waters?

A I believe it was -- I can't be sure. It was the last week, few days of July, maybe in August. I just don't know. I just don't recall. That is two years ago.

Q Was the subject of an attorney's fee mentioned?

A No, it never got that far.

Q Did you ever mention any figures?

A No. We never got that far. Mr. Waters was not available, period. That is why it terminated.

Q Well, did you ever attend any meetings with Mr. Asa Call on the subject of paying any attorney's fees to the Arditto group?

A I asked Mr. Call -- I called Mr. Call, and went in his office back in July.

Q '56?

A '56. And I came out here, see, from New Orleans in 1955. And as I went along in this the work load is pretty heavy down here, and the more I read this procedure, the more I was trying to find who I could get to give me some special assistance, and I asked Mr. Call who I could get. I didn't know anything about the City of Los Angeles, or the attorneys, other than just my close knit group.

He suggested that Mr. Frank Waters, who I did not know nor had I met, and he said a very capable and honest

and straight forward gentleman.

Q He suggested Mr. Waters for what? I don't understand.

A To help me as an attorney only.

Q An attorney?

A For a fee. And then I called Mr. Waters and it never went any further than that, since he was already operating, working with another group.

Q Well, when you came to Los Angeles did you open a new office, or go into one already set up?

A I went into our office. It is not a new office. It has been here many years.

Q It had already been established by Standard Oil?

A Oh, yes.

Q Do you have attorneys working in that same office?

A What do you mean, attorneys?

Q Attorneys, members of the Bar, attorneys at law.

A Oh, we have a lot of graduate -- we have a lot of land men that are graduate attorneys, but they do not practice law.

Q Do you have a law firm in Los Angeles?

A I do. Mr. Mattson represents me on many matters.

CHAIRMAN ALLEN: And I didn't get the name of your firm, Mr. Mattson?

MR. MATTSON: Lawler, Felix & Hall.

CHAIRMAN ALLEN: And I take it the firm as well as

yourself, represent Standard?

MR. MATTSON: That is correct.

(Q) BY CHAIRMAN ALLEN: Well, didn't anybody tell you that Lawler, Felix & Hall were attorneys for Standard Oil?

THE WITNESS: I was fully aware of that, certainly.

Q How did you happen to call Mr. Call about getting another attorney?

A I wanted somebody that could give me special assistance, that was fully cognizant of the procedures involved in the Harbor Area, and in the City. And Mr. Waters, having been on the Harbor Department way back there, I don't know when it was, in the early '50's, I felt -- and Mr. Call thought he would probably have more knowledge of the procedures than most anyone else.

Q And you came out here from what state in '55?

A Louisiana.

Q Were you engaged in the same general occupation there?

A I was, for a subsidiary company of Standard Oil.

Q I will show you a memoradnum that has the notation "Attention Mr. L. E. Scott" at the bottom, and dated August 6, 1956, and ask you if you are familiar with that?

A Yes, I am familiar with that.

Q I am sorry?

A I am familiar with that letter, yes, sir.

Q You received this around August 6, 1956?

A Yes.

Q This memorandum is an office memoradnum within the Standard Oil Company?

A It is, yes.

Q It wasn't sent to some outsider?

A No, sir. It is an inner office memorandum.

Q And it contains a note at the bottom, after reciting certain charter provisions of the City of Los Angeles, "In view of the foregoing charter provisions, it appears that it would be extremely hazardous to apply for or accept a lease or permit without full disclosure of the identity of all interested parties."

Will you tell us the occasion of getting that memorandum?

A The occasion is, first, Mr. Allen, any time that I get involved in any City or County or Municipal or Governmental body, or any other body, I try first to have enough foresight to ascertain the procedures and the legal requirements for making and asking for a valid lease. That is the main reason for this.

Secondly, and this pegs the time about when I talked to Kadane, their application initially was G. E. Kadane & Sons. And the other people had not at that time, but they never had any objection to it, entered in on the

strictly to Kadane for the payment of all of the 20% costs.

Mr. Arditto wanted his interest specifically spelled out, and that is the reason for it. And we had no -- and we did not disagree with it. Mr. Allen, in our letter of November 7, the tri-party agreement, it sets out the full agreement of the parties. I have my own copy of that.

Q May I see the letter you have got there in your hand?

(Witness hands document to Chairman Allen.)

CHAIRMAN ALLEN (Continuing) Yes, the letter you just handed me dated October 31, 1956, from James J. Arditto to Standard Oil, to your attention, contains the statement at the top of the page, Page 3, "Repeatedly stated to both you and the Kadaness it is our purpose to have our interests clearly stated in this tri-party agreement. All in accordance with your insistence."

Would you elaborate on that for us?

A We had agreed at an early audit, and this is just one of Mr. Arditto's letters that he wanted it set out, and also we had insisted on it.

In other words, he was just pointing out to me that both of us had insisted on it.

Q As I understand your testimony, the percentage of the Arditto group was fixed by their agreement with

Kadane & Sons?

A Yes. They had a prior agreement.

Q And the Arditto group rendered no services to Standard Oil Company?

A No, none to us, except at any time you become joint applicants, or joint venturers, you are going to certainly expect everybody to get to work and try to get something for the benefit of all.

Q Has Standard Oil Company, to your knowledge, ever entered into any of these agreements where they pay to carry somebody on one of these carried working agreements, give them a percentage?

A Mr. Allen, we make, throughout the United States, and I have over the past ten years, all kind of agreements: shared wells, net profits, unit wells, overrides, every other, just almost every type of agreement. It is not at all unusual.

Q Standard Oil does make them?

A We drill a lot of carried wells throughout the United States.

Q What circumstances do you carry somebody?

A It depends upon the circumstances of the facts at that time, Mr. Allen.

Q Well, describe to us where you have carried interest in one of your leases?

A Well, many times you will want to drill a well

in an area and a company or individual is not willing, or does not have the money at that time, or, for some reason, does not desire to drill one. And if you have an impelling desire to go ahead, then you go ahead and drill the well on a carried basis.

Q Have you ever talked to any members of the Board of Harbor Commissioners about this application in the Inner Harbor?

A I talked to Mr. Lloyd Menveg once or twice; once, I believe, personally, and several times on the phone, about the procedures and the timing. I believe my first visit was in July, about the time when I filed my application.

Q What was your conversation with him?

A As to when, as to just how much, what the timing program was, and at that time I was advised that they were waiting for consultants' reports, and prior to making up their mind at just exactly what they were going to do.

Q Was this before you called Mr. Waters?

A That is right.

Q Did Mr. Menveg suggest anything about calling anybody?

A He did not. He did not.

Q Did you mention Mr. Waters' name in that conversation?

A I did not know Mr. Waters at the time.

Q Well, did anybody mention the name?

A No, sir.

Q Did you have any further conversations with anybody, either the staff or the Board of Harbor Commissioners?

A Staff, when I filed my application, primarily, let's go back to February when I secured our geophysical permit, I went down and talked to Mr. Caughlin, who was always very cooperative and courteous and helpful. Then when I filed my July 6th application I believe I talked personally to Mr. Caughlin in his office for just a few minutes. I called him, I guess, several times on the phone trying to find out from then until December just what the timing was, and when we could expect action.

Q And what did he tell you?

A Mr. Caughlin told me in July that they were waiting on a report from a consultant, and that they were not going to take any action until that report was received. I also recall his remark that it would probably be four to six months, and that was in July.

Q Did you approach Kadane & Sons, or did they approach you?

A Kadane & Sons contacted us initially in San Francisco. Thereafter we got together on mutually arranged meetings many, many times and arrived at the basis of this November 7th agreement, and our immediate application was filed as a result thereof.

Q When did you know that the Harbor Commission was

sending out this notice of December 20, 1956?

A When I got it in the mail on December 21st.

Q Did you talk to anybody at the Harbor Commission ahead of time on that subject?

A I did not.

Q Or anybody from the Arditto group about it?

A Well, we had many conversations, but I did not know that the notice was coming out until I received it.

Q Did you know there was going to be a notice?

A No, I did not. I had hoped, let's put it that way, that since the Stanley and Stolz report was in, that there was going to be some sort of action.

Q Do you feel that the notice was adequate?

A Well, Mr. Allen, I think it was. Of course, you realize, I take a little different view about the time here. Nine months from the time we commenced shooting, four or five months from the time we filed a specific, firm proposal, is an extremely long time. Ordinarily I believe it is the first time in my life that I have ever given my competitors the benefit of such specific information concerning what Standard Oil Company was willing to do. And if they couldn't operate with that information as widely published as it was in the press --

Q Were the terms of Standard's offer published in the press?

A I believe it was. To the best of my knowledge, I

saw it in the press.

I would like to tell you how I knew Kadaness' filed the first time. We have a very aggressive group, and one of my secretaries brought in a clipping to me in May, I believe it was, or early June. I forget which. I forget the exact date. Showing me that Kadane had filed. And then I filed my application shortly thereafter.

Then I noticed that Mr. Pauley filed in July; July 17th, through the press. And I filed one July 27th.

Q Did you see Mr. Pauley's application?

A Did I see it? Where?

Q Yes. Did you ever see it?

A I saw it in the press. I have seen a copy since, yes, sir.

Q Did you ever go down to the Harbor Commission to look at Mr. Pauley's application?

A I did not, but I sent a land man down there and got a copy of it. He took it down in longhand, and brought it back to my office and we had it typed. Anybody can go down there and get anything they want, Mr. Allen. That is public records down there, and I have never had any difficulty getting any information I wanted. All you have to do is go and ask and get it.

Q Well, I take it the Harbor Department is cooperative with you, then?

A Ever since I have been out here they have been

extremely cooperative, and very willing to give me whatever information I wanted.

CHAIRMAN ALLEN: All right. Any questions?

ASSEMBLYMAN SUMNER: Yes.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION (Continuing)

BY ASSEMBLYMAN SUMNER:

Q You mentioned that you had hoped that there would be - I don't quite understand your remarks - you said you hoped there would be some sort of action, is the note I wrote down, when the Stanley and Stolz report was filed, and then the question was asked whether or not there were competitive, or other notices sent out. In other words, you hoped that there would be notices sent out. What did you mean by that? I know that is a vague question.

A Well, I don't know that I said I hoped notices would be sent out. I just hoped some action would have been taken on our proposal.

Q Oh, on your proposal?

A Yes.

Q I see.

A I would like to point out, gentlemen, that I do not establish the procedures, nor do I ever try to tell them what to do. When I find certain procedures that have

been followed like in the Harbor Commission since 1934, or '36, I just merely abide by them. Those procedures are pretty long and drawn out, but they are pretty well spelled out and have been followed for the last 20 years. And the Charter is pretty clear as to the procedures of the Harbor Department.

Q Why did you take in the Arditto group on November 23rd, and why didn't you take them in earlier?

A We agreed, as you will notice in our agreement with Kadanis and Standard and the Arditto group, we finally verbally agreed on August 31st. From that date until November 7th we had many conversations as to the language in the contract, and other provisions. And it was not finally reduced to writing until November 7, at which time the agreement was signed.

Q But you had turned in your original bid on July 6th, 1956?

A That was our bid.

Q That was your bid?

A It wasn't a bid. It was our suggested proposal, yes, sir.

Q And that was the one on which the Harbor Commission eventually acted, and that was the basis on which they granted you?

A No, sir. Our bid, our amended application, was November 23rd.

Q Well, the only amendment was, and maybe I am wrong on that, wasn't the only amendment to put in Kadane & Sons and the Arditto group?

A At that time, yes. That was the only amendment as of November 23rd.

Q So as far as your position was concerned, what was the difference? Why did you bring them in?

A The Kadaness had asked us to join in, if we liked, and we have done business -- we buy substantial crude of Kadane, and they are extremely fine operators, and extremely fine people as the letter from the Republic Bank in Dallas indicates. And that is a very, very risky area, as you know.

Q Well, you wanted to spread the risk?

A Spread the risk, and that was one of, I would say the Los Angeles Harbor is probably one of the most difficult areas that I have ever been involved in as to operation drill sites. You have a real big problem. You got multiple use down there. You got steamships. You got every kind of industry down there. And it is a very risky area.

Q You brought them in to spread the risk, but how about the Arditto group? Why did you bring them in?

A They were with the Kadane group, and we paid 80% of the cost and the Kadaness and the Arditto group paid 20%. And also they took 20% of the risk.

Q Well, did the Arditto group share in that 20%

of the risk?

A They certainly did. They are a party to the contract.

Q Did you hear Mr. Arditto testify the other day, I think he said he didn't, maybe I am mistaken, but they didn't feel that they were in on that part of it?

A On what part?

Q On the risk part of it.

A If you are a party to a lease and there is any question that arises, you will find out that you are certainly assumed a portion of the risk, if there is any litigation that results therefrom.

ASSEMBLYMAN SUMENR: That's all.

CHAIRMAN ALLEN: Well, how was the Arditto group taking any risk under this agreement? Didn't you tell us it was a carried --

A Carried interest, Mr. Allen, is strictly the advancement of money. It is not the advancement of assuming all risk involved.

CHAIRMAN ALLEN: Well, if you drilled a dry hole you wouldn't expect to get any recovery from the Arditto group?

A That is just one of the many risks involved.

CHAIRMAN ALLEN: All right. Mr. Hanna.

EXAMINATION (Continuing)

BY ASSEMBLYMAN HANNA:

Q I just wanted to ask one question. Was there any formal document or documents, or informal documents, between the Standard Oil Company and the Harbor group other than your formal proposal that you actually signed? Have you signed a lease, temporary lease with any other --

A With the Harbor?

Q Yes.

A I would like to clear up one thing. There has never been a lease.

Q I wanted to clear that up, too.

A And if you will go to my statement, the only thing that the Harbor Board did was to ask the City Attorney to prepare a draft of a proposed contract. Then this whole matter would be referred to the Board of Referred Powers, the same as any other Standard application, as we have seen in my statement, and there again it would have gotten a completely new hearing. It would have been completely reviewed. And anybody who wanted to make a better offer, all they had to do was make it.

Q And at that time any companies interested in the area made their proposals and negotiated, as those terms were explained to us this morning?

A Yes. And that is the purpose of this statement here, to point that out clearly. There is about six or seven places that on a negotiated deal, any time that

someone made a better proposal the City of Los Angeles would have no alternative but to consider it and take it into consideration. And the only time I could ever get a lease, or Standard Oil Company could, is by making the absolute best offer up to the time that the contract is actually executed.

Q And at all times what group was responsible for determining whether or not it was the best? It would be the Harbor Commission, right?

A No.

Q Who would determine that?

A It would be several groups, the way I look at it, that would determine it. It gets a review and a re-review. It was reviewed by the Harbor Board. Then it was referred to the Board of Referred Powers to be completely reviewed again. And an independent decision would have been entered if they had passed on it. Then it would have been sent to the City Council of Los Angeles, and in turn I believe they have various and sundry committees and they no doubt would have held hearings on it. And they would have determined.

Then the City Council would have had to approve it. And then the Mayor would have the option to veto it. And then it would have had to go to notice for 30 days, and thereafter, if someone still wanted to make a better proposal, they could go to the referendum.

Q Who makes up the membership of the Committee of Referred Powers?

A That is provided by ordinance -- by the Charter, and I just do not at this specific time have that information. It is in the -- I believe it is an ordinance that you order, or something.

MR. MATTSON: Could I clear that up for you? I would be glad to. Under the Charter, as under the State law, if any person on a board is interested to the extent of disqualification, your contract is absolutely void. So the Charter of the City of Los Angeles provides that in order that they can do business in those cases, the boards being made up of nonpaying members who are business men, and they frequently have stock, or other business relations with the corporations with whom the City deals, hence, as in the case of the Board of Harbor Commissioners, there was one man who had business dealings with Standard, to wit, Mr. Tanner.

Mr. Tanner was disqualified, hence the entire Board was disqualified. Hence it had to, under the City Charter, go to the Board of Referred Powers.

The Board of Referred Powers is the only organization that had any legal ability to act in this matter. Any final action at all. And even this was reviewable by the City Council and the other procedures that have been mentioned.

Now, the Board of Referred Powers is made up of members of the City Council. By ordinance it is specified which members.

ASSEMBLYMAN HANNA: Thank you. That's all.

EXAMINATION (Continuing)

BY CHAIRMAN ALLEN:

Q Mr. Scott, Standard Oil Company joined in this application on the Inner Harbor that you have discribed. Is it also true that they joined with Pauley and the Arditto group in an application on the Outer Harbor?

A That's right, in the application on the Outer Harbor, which was earlier, and I believe it carried the date of September 17th.

Q And the party agreements were somewhat similar on the two applications?

A Almost identical, yes.

Q And is it also true that on both applications that the agreements were effective only under a negotiated bid, and were not binding on the parties in the event there was leasing by sealed bidding?

A That is correct.

Q Wouldn't the risk of loss on nonproductive leases be the same in either case, whether you get the lease by sealed bidding or negotiation?

A Well, Mr. Allen, when you have a sealed bid, a

true sealed bid, the contract is prepared, as you know in the State Lands Commission, and all the terms are established, the well spacing, the development, all methods of operation. Your drill sites are determinable, and then you have the opportunity of accepting that proposal as it is set out, and you usually fill out the amount of money you are willing to pay for it.

Royalty terms are already established. Well spacing, the method of operation, anything that goes into a sound oil and gas lease or contract.

Now, when you are negotiating, and you don't know on a sealed bid what you are faced with, or what your terms are, until you get a copy of the final lease and final proposal, then at that time you determine what you are going to do.

Q Well, you know before you bid on a sealed bid what the terms of well spacing, and so forth, are going to be, don't you?

A On a sealed bid, yes. That is the great distinction. In other words, you bid on the factor that is called upon to be bid.

Q I don't understand why you would associate on the one hand Kadane & Sons and the Arditto group in your application on the Inner Harbor on a negotiated bid basis, but not on a sealed bid, and similar proposition on the Outer Harbor.

A On the sealed bid basis I am not going to fix interest, or obligations to do anything until I know what I am bidding on. And therefore --

Q Well, you knew what property was involved?

A That is right, but I don't know the terms and conditions of the sealed bid. In negotiations you know, because you are going right along the line. And when you are negotiating you get to the point that it gets uneconomical and you say that's all. You have the option to cut it off at any time, and so does the City or whoever you are dealing with.

Q Well, in either event you wouldn't take a lease unless you thought it was economic, would you?

A That is right. But under a sealed bid you don't know what terms there are until after the lease is prepared and the specifications written.

Q Well, you know about those in advance of submitting your sealed bid, don't you?

A Oh, yes. But the lease information has to be prepared, and the specifications and all the terms and conditions are spelled out.

Q But what advantage was it to associate Kadane & Sons and the Arditto group on a negotiated bid where you had no advantage, apparently, than if you associated them on a sealed bid?

A We were very happy to associate the Kadaness, and

very happy to associate with the Pauley group. They are very fine operators. Going to a sealed bid I don't know what we would have done. We would have crossed that bridge. What our company would have done, it is not the custom ordinarily when you are operating on submerged lands, you go in with groups, most companies have out here because of the terrific risk and expense.

Q Well, were any of these people offering some advantage to you on a negotiated bid that they couldn't offer on a sealed bid?

A I never involved myself in a sealed bid. It was just not part of the deal. If it did not go, if we could not get a negotiated contract, we had no deal. It terminated.

Q You got that provision in here?

A That is correct.

Q You didn't want to be bound to associate these people in your offer if it was a sealed bid?

A That is right, because I don't know what the terms and conditions of the sealed bid are. Maybe at that time we would not want it. I don't know what your terms of your sealed bids are until the time they are issued for bid. And nobody does.

MR. MATTSON: Could I clear that up?

CHAIRMAN ALLEN: I wish you would.

MR. MATTSON: Well, when you get an offer to submit

sealed bids you have an absolute proposal. You can then go to anyone else that you want to join with you on a sealed bid and say this is what we have to bid on. Are you willing to bid on it this way? You can't agree in advance before you get sealed bids that you will join with anybody on any particular basis, because you don't know what you are going to have to do under the sealed bids.

In other words, it would be like writing a blank check. Does that clear it up? In connection with this matter, both the Kadaness and Standard were dealing on the same basis. It appeared from their offers to the Board that they were both bidding on a sliding scale. They were together on the way they wanted to operate.

On a sealed bid, you don't know. We have no way of knowing how the Board would want to offer that for bid. Hence, we can't agree with anybody else because we don't know what we are going to have to do. Does that clear it up?

ASSEMBLYMAN MILLER: Mr. Chairman?

CHAIRMAN ALLEN: Mr. Miller.

ASSEMBLYMAN MILLER: I think probably the misconception is, we have a misconception of it here when an agency makes a bid offering, and practically all of the tangible factors are made in the offering for a sealed bid like at the State level.

In other words, we know well spacing, that is a contingency. You might put out a bid with X amount bonus, other bids of a tangible royalty. So we are assuming that a bid offer made by the City on a sealed bid procedure would be rather definite as to what you were bidding on. It would only be one factor, the biddable factor. This is the reason, I think, that we are rather, at least I am, confused where you are saying now, when you give sealed bids you don't know actually what you are bidding on, or until the lease is offered. Now, in what respect am I --

MR. MATTSON: That is right. You don't know until the governing body send out its offer, or its request for sealed bids. It will send out also its lease. Then you know what you are going to have to do. You can then, if you want to make a joint bid with someone, you can say we can go in on this basis because we know that each one of us will have to put up so much money. You can't agree before they do that because you don't know whether they are going to bid on a bonus basis, or on a royalty basis, or however. One man will want to bid on a royalty basis, and one on a bonus basis.

ASSEMBLYMAN MILLER: Well, this is not what we are doing on a State proceeding here now, and I just wanted to be specific.

MR. MATTSON: Well, here we couldn't very well agree in

advance on a sealed bid.

ASSEMBLYMAN HANNA: Just putting it a little more plainly, on a negotiated contract, you would be arriving at all these things in stages?

THE WITNESS: That is right.

ASSEMBLYMAN HANNA: You would be a party to arriving at those stages.

MR. MATTSON: That is right.

THE WITNESS: You would have a part in it, yes.

ASSEMBLYMAN HANNA: And on the other you would have to wait until it all came out and take it from there, is that right?

THE WITNESS: Take it or leave it basis, that's right.

ASSEMBLYMAN HANNA: In other words, what arrangements are made under this contract, and the services that are being rendered, is more or less the activity in the arriving at these stages of the negotiations, is that correct?

MR. MATTSON: That's right. And which would not be finalized until it came out of the Council and 30 days had elapsed.

CHAIRMAN ALLEN: Would you have been willing to consider joining either of those groups on a sealed bid?

THE WITNESS: I never cross bridges until the time comes, Mr. Allen, because the economic conditions and budget conditions and various other conditions change, and I would not say today what I will do two years from now

because I just don't know. I make my mind up on facts the way I understand them at the time the decision is necessary.

CHAIRMAN ALLEN: We will mark the statement you have supplied us as the next exhibit, and thank you very much for coming. You may be excused. At least from the subpoena.

(Statement marked as exhibit.)

(Witness excused.)

CHAIRMAN ALLEN: We will take a five-minute recess at this time.

(SHORT RECESS.)

CHAIRMAN ALLEN (Continuing) The meeting will please come to order. Is Mr. Bush present?

MR. HAUKE: I take it the Committee has no objection to my sitting in? (Attorney A. Andrew Hauk for Mr. Bush.)

CHAIRMAN ALLEN: None whatever. Come right up.

FRED W. BUSH,
called as a witness by the Committee, having been first duly sworn, was examined and testified as follows?

EXAMINATION

BY CHAIRMAN ALLEN:

Q Your full name, please?

A Fred W. Bush.

Q Your occupation?

A Manager of Lands, Union Oil Company of California.

Q And how long have you held that position?

A Since 1949, with a year and a half at another assignment during that period.

Q And the Union Oil Company of California is an integrated company, is that right?

A Yes, sir.

Q I will show you a letter dated November 14, appearing to bear your signature, addressed to the City Council of the City of Los Angeles, and ask you if you can identify that letter?

A Yes, sir, I can.

Q And was that with regard to the area marked on that map as beyond the breakwater?

A Yes, sir, that is correct.

Q And does this state any specific proposal for leasing this property?

A No, sir. It is an inquiry, as you can notice.

Q And the letter would indicate you were writing this on behalf of Union Oil Company of California, Continental Oil Company, Shell Oil Company, and the Superior Oil Company?

A Yes, sir, that is correct.

Q Is that commonly called the C.U.S.S. group,

C-U-S-S?

A Yes, it has been referred to as that. That is a nickname, you might say.

MR. HAUKE: C.U.S.S. Not cussed.

(Q) BY CHAIRMAN ALLEN: Do you know what happened to this letter of November 14?

A Yes, I think it is addressed to attention of the President of the Council, is that correct?

Q Mr. Gibson.

A Yes, sir.

Q Yes.

A Mr. Gibson, on the 21st of November, replied and indicated that the inquiry would be passed on to the Industrial and Transportation Committee.

Q The 21st of what month?

A November 21st, 1956.

Q All right. He told you that?

A We have correspondence that indicated that. And then subsequent to that it was passed on to the Industrial and Transportation Committee by the City Clerk. I think at that time it was given a file number and put in the regular course of business.

Q And I take it the Chairman of that Committee is Councilman Timberlake?

A Yes, sir, that is correct.

Q And did you ever discuss this offer of yours with

Councilman Timberlake?

A We didn't make an offer. We made an inquiry. We did make some inquiries insofar as --

Q Will you speak a little louder, please?

A I say we didn't make an offer. We made an inquiry. Mostly in regard to being put on the list of interested people and operators in this property. And also asked some information regarding the description of the lands, if there was a specific description.

Q I will show you a letter addressed to you from Councilman Timberlake, or, rather a copy of one. I will ask you if you received the original of that?

A Yes, I did.

Q And I will show you another letter.

A This is November 27, 1956.

Q I will show you another letter dated November 29, 1956, addressed to you from Frank E. Small, Field Deputy, and ask you if you received the original of that letter?

A Yes, sir, I did.

Q And during this period did you have discussions with Mr. Timberlake or Mr. Small with regard to leasing this property?

A Yes, sir. We received the letter from Mr. Timberlake on November 28. And on November 29 I made a phone call to Mr. Timberlake's office and asked if it would be

possible that we have a little additional time. Mr. Frank Small was the party that I talked to, and he, of course, indicated after checking with Mr. Timberlake that it would be in order for us to take additional time with no definite limitation. And I asked him if he would confirm our conversation in writing, which he did for us.

Q That is the reason for the last letter from Mr. Small?

A That's right.

Q Did Mr. Timberlake confirm that?

A It was my understanding that Mr. Timberlake was consulted by Mr. Small and that this approved by him.

Q Who told you that?

A Mr. Small.

Q Did you ever talk to Mr. Timberlake about getting this extension?

A Directly, I don't believe I did. I think that I was referred to Mr. Small because Mr. Timberlake was tied up in a meeting, or something, and I think that Mr. Small contacted Mr. Timberlake and Mr. Timberlake gave his consent to this type of an arrangement as confirmed by our letter of November 29th, 1956.

Q Now, at the time of these letters did you know whether or not Mr. Timberlake's committee was considering proposals from any other oil companies on the same property?

A In that particular instance I might say this:

My function at this point was to take care of the paper work and the details for the offshore group, or the C.U.S.S. Group. And at this time it wasn't my job to negotiate anything. It was just my job to make sure that the information was properly channeled and that it was fully handled in accordance with the instructions of the C.U.S.S. Group.

A All right. Did you know at the time of these letters whether or not Mr. Timberlake's Committee was considering similar proposals from other oil companies?

A I knew that myself. However, it wasn't my function to get into the reasons or the justification of it.

Q And did you ever discuss with Mr. Timberlake on December 28, after the issuance of the information from the City Council that they had indicated that an ordinance should be drawn for this particular property in an oil and gas lease, at which time I did discuss some of the details with him. But he more or less confirmed that the action had been taken, and to know that they had made up their minds definitely as to what they wanted to do.

Q That was on December 28, 1956?

A December 28.

Q That is your first conversation with Councilman Timberlake?

A I think I had talked to him some time before just casually and asking information. But not in detail insofar as a proposal was concerned.

Q Did anybody else from the C.U.S.S. Group negotiate with Mr. Timberlake or this Committee with regard to this property?

A No, sir, I don't believe they did.

Q Was anybody asked to?

A No one was asked to, that I know of.

Q And by December 28, 1956, am I correct in stating that the lease to this property to another company had been approved by the City Council?

A That was my understanding.

Q And signed by the Mayor?

A Well, I don't believe it had been signed by the Mayor at this point. I don't know the mechanics beyond here. I just confirmed that the --

Q All right. Do you remember when it was signed by the Mayor?

A Let me see. I think that --

Q Well, we can find that out.

A Yes. I don't think this lease has been signed by the Mayor, has it? I don't know. We dropped it at this point, December 28. I am not sure.

CHAIRMAN ALLEN: All right. Any other questions?

ASSEMBLYMAN HANNA: Yes.

CHAIRMAN ALLEN: Mr. Hanna.

EXAMINATION

(Continuing)

BY ASSEMBLYMAN HANNA:

Q Mr. Bush, did you know of the interest of Standard that has been testified to by Mr. Scott that began back in February, 1956, in the areas that are delineated on this map?

A I didn't know it at that time, no, sir.

Q Had you made any contact, or any of your group made any contact with the Harbor Commissioners relative to the Inner Harbor area?

A Well, we are on a different lease now.

Q Yes, I know we are. That is why I am trying to delineate between the two.

A Yes.

Q Were you interested at all in the Inner Harbor area?

A On November 14th, the same day we made inquiry on this Outer Harbor lease, we also made inquiry to the Board of Harbor Commissioners in regard to the properties that they were to put up for consideration.

Q And were these in the way of beginning overtures towards expressing your interest in that area also?

A That's right. My correspondence was acknowledged through carbon copy of the letter addressed to the Board of

Commissioners by the Secretary.

Q Has the C.U.S.S. Group been interested in making seismic exploratory operations up and down the Coast below and above this particular area?

A Well, this is out of my function, outside of my particular bailiwick, and they run their own business there and they only call me in at a time when I am supposed to do the detail and leg work for them.

Q In other words, you don't get into the picture until there is some activity toward getting the leases for the same?

A That is correct, Mr. Hanna.

Q Does your information that you have obtained up to this time indicate to you that there would be two different procedures followed relative at least to the area marked beyond the breakwater, and that marked Inner Harbor?

A That was my understanding. And that was the reason we addressed our letters differently on the same day, which would indicate that we had that knowledge.

Q And it would be your understanding that the statements of Mr. Scott relative to the steps that would be taken in the lease that he was talking about would apply only to the Inner Harbor area in that in this particular area the Los Angeles Board of Harbor Commissioners are involved?

A That's right. There are two different procedures. I think everyone understands that.

CHAIRMAN ALLEN: Any other questions? All right,
thank you very much.

Mr. Waters?

FRANK J. WATERS,
called as a witness by the Committee, having been first
duly sworn, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Your full name, please?

A Frank J. Waters.

Q Attorney at law?

A Right.

Q And with an office in Los Angeles?

A Right.

Q With the firm of Waters, Arditto and Waters?

A That's right.

Q Mr. Waters, you were present yesterday when Mr.
Arditto testified?

A Yes, indeed.

Q Is there anything in Mr. Arditto's statement that
you would like to comment on, or that you differ with?

A No, I think he well presented all the facts and
the dates and the figures, certainly within my knowledge.

Q And you were present this afternoon when Mr.
Hutchins testified?

A Yes.

Q Is there anything about Mr. Hutchins' testimony you would like to comment on or to differ with?

A I don't exactly differ. I should like to clear up this one point, though, with regard to this percentage, 8%, I believe it was, or 12, whatever the final figure is. I don't remember.

But don't forget there seems to be a misunderstanding on the part of the Committee, but Noah Dietrich had been a long time friend of Mr. Arditto and myself, and he called up Ed Pauley, and Mr. Dietrich and Mr. Pauley have been friends, I guess, for 25 or 35 years, and advised him about the fact that this so-called Outer Harbor area had never been leased. And since they were both interested in the oil business, let's go after it.

Now, I am sure you know that it is common practice in the oil business if someone presents to someone else an oil possibility that there should be a consideration. And that is given in the form of whether it is an overriding royalty, or a carried working interest, or a participating interest, or any of the multitudinous interests that they do have in this oil business. I am certainly not familiar with them, but in our particular situation we have been identified with this carried working interest rather than overriding royalties.

So that is how that came about. It was finally

negotiated out and firmed up by all the parties concerned. So that is the only point where I differ with Mr. Hutchins, that that is a very, very, substantial part of his Pauley-Arditto group situation. And I think he would confirm that.

Q Now, you mentioned this carried working interest. Would you describe in any further detail what consideration you or Mr. Arditto or Mr. Dietrich were furnishing for the interests you received under these agreements with either Standard Oil, Kadane & Sons, or Pauley?

A Well, now, with regard to the Kadaness, they came to us. Waters, Arditto and Waters are practicing law. I served in the Legislature for a period of eight years. I served for many days on Interim Committees.

So, following my service in the Legislature I went into practice of law with Jim Arditto who, as you know, had formerly been Franchise Tax Counsel for the State, and formerly Chief Tax Counsel for the State Attorney General's office, and subsequent to that he had been Tax Counsel for Trans World Airlines in the East. And how we came about forming a partnership, he got sick and tired of the snow and wind, and what have you, in the East, and wanted to return to California.

So January 1, 1948, we formed our partnership. Now, "we", referring to the Kadaness-Arditto understanding, that

was pretty well formalized. And I can't recall at this time how many weeks or months we had had that.

But I received a call from Asa Call, the Chairman of the Board of Pacific Mutual Life Insurance Company, and Chairman of the Board of Trustees of the University of California, and I am sure he is individually known to each and every one of you gentlemen. I have known Asa Call, I guess, for 30 years.

He called me and said, "Frank, come on over to the office. I would like to talk to you about a legal representation."

So I went over there and he said, "Frank, you know I am on the Board of Directors of Standard Oil." And I said, "Yes, I know that." And he said, "Well, we are entering into the Southern California picture, and into the Los Angeles Harbor picture." And he said, "The Board meets in San Francisco, which is the home office, and they asked me about the Los Angeles situation. Let's get a hold of a lawyer that is familiar with the procedures, and that sort of thing, in that particular area, and that responsibility was delegated to me. And so, knowing you, and you have been in the Legislature and have been active in the community life in Los Angeles, you have served on the Harbor Commission, you had served on the Police Commission, you were probably as well equipped to know the local city laws and ordinances as anyone.

"So, knowing you, and having known you since you were a kid, almost, why, I want to give you this legal representation."

I said, "Well, Mr. Call, that is wonderful, and I deeply appreciate it. I would love to represent Standard Oil. But we have this Kadane situation with Noah Dietrich and Jim Arditto."

Then I think Mr. Call said, "Well, let's work it out." I said, "Fine," and boom, it just went on from there.

Now, I also told him, I said, "Jim Arditto and I aren't looking for any fees. We are making pretty good money, and this oil business is pretty attractive, if you hit a winner." I understand there is an awful lot of dry holes in this business. Primarily we were interested in getting into the oil business because of the very decided and attractive twenty seven and a half per cent depletion allowance which is given to all of these economic interests.

So that is about the way that came about. And that is the reason that we were interested in this carried working interest.

I think probably at the time we felt maybe we could receive a bit more by virtue of having a carried working interest, which means we would wait a period of several years until they had recouped all of their money, than had we requested, in lieu of a fee, an overriding royalty. You notice that many leases, well, you are familiar with them,

the lawyer, or a lease hound, so-called, will get a one or one half or two per cent of X per cent in an overriding royalty, and so forth and so on, whatever it may be.

So that's that, at least that is the way I see it.

Q Did you perform legal services for this, getting this carried working interest?

A Well, I think I performed services, yes. We were all in it together. It was sort of a mutual enterprise alliance proposition of trying to win the battle, and obtain this.

Q Legal services?

A Well, we prepared applications. We researched the law, that sort of thing. So I would say it involved legal services, to a degree, certainly.

Q Did you perform any other services, other than what you have described? What I want to know is your understanding of what you did to get that carried working interest.

A Well, you are talking about the Standard situation, or are you talking about the Pauley situation, or are you talking about beyond the breakwater? Which one?

Q Let's leave out the area beyond the breakwater for the time being. That was a corporation, and I understand actually you didn't have an interest in that?

A No, but I was attorney of record for that operation.

Q But on the other parcels there have been agreements and letters produced that showed you had a carried working interest in it?

A That's right.

Q And that you were not required to advance any money?

A Well, there is nothing strange about that, Mr. Allen.

Q I didn't say there was.

A No, well, you seemed to infer it.

Q I want to know what you did to receive this interest.

A Well, the Kadanés came into our office and we prepared, I guess Mr. Arditto prepared documents, also statements. I am sure the office did a great deal of legal research.

Q Is that what you got the interest for?

A He wanted that in lieu of a fee, certainly. Yes.

Q Is that the reason that Kadane & Sons gave you a carried working interest?

A We insisted on an interest. We wanted an interest. We didn't want any cash fee. We would just lose it all, or a great deal of it, by the high income tax rates. This is a gamble.

Q Do you remember approximately the time when you reached this, started discussing this with Kadane and Sons?

A No. No. Gentlemen, you would have to ask Mr. Arditto. I just don't remember that. There are so many dates in this thing, it covers a long, long period of time now.

Q According to Mr. Hutchin's testimony, which I believe you heard, you were not to get this interest in the event of competitive bidding. Is that right?

A Yes. Yes, that's right.

Q And why the difference? You get the interest in one event, and not in the other?

A Frankly, I had never given it any thought.

Q You mentioned Noah Dietrich.

A Yes.

Q Would you tell us something about him? Who is he?

A Well, Noah Dietrich then was Executive Vice President, I believe, or Consultant to the Hughes Tool Company. He was, I believe, a member of the Board of Directors of Trans World Airlines, member of the Board of Trustees of the University of Notre Dame, a member of the Board of Directors of the City National Bank in the City of Houston, Texas, a member of other banks, and I believe a member of the Board of Trustees of some college in Texas. He has been actively identified in the financial and oil worlds, I guess, for 40 years or more.

Q Is he a member of any City Board or Commission?

A I think he is presently a member of the Metropolitan Water District.

Q Is he an attorney?

A He is a Certified Public Accountant by profession.

Q And what part did Mr. Dietrich play in the way of services in getting these leases processed?

A I don't think he played any part. Mr. Dietrich, as I told you before, is a long time friend of ours. And I went to him with this idea. Please understand this chain of events.

I went to him and I said, "Mr. Dietrich, I find out that the Los Angeles Harbor has never developed its oil potential. I can't understand it. But I think that there must be something there because all you have to do is look across the imaginary boundary line between Los Angeles and Long Beach Harbors and see the activity in Long Beach Harbor."

I don't know how many hundreds or thousands of wells that Long Beach has. Possibly Assemblyman Grant can tell us. But I was amazed yesterday when Mayor Poulson testified that in all of Los Angeles Harbor there are today only 162 wells running from, I don't know, four barrels maybe up to 30 or 40 barrels. It never added up to me why the City of Long Beach, for 25 or 30 years, has been producing oil from their lands.

As a matter of fact, the last time I was down in the

Long Beach area some months ago I noticed that they don't even seem to be worried about bringing in ships any more; that they had huge trucks and trailers roaring out to the edge of the harbor there and dumping in dirt, and they were even filling in their harbor, and as soon as they fill in the harbor they spud in a well and start drilling a well.

It seems that they are drilling these wells day and night, seven days a week, and every month of the year, going after that oil. But in Los Angeles you don't see that.

ASSEMBLYMAN GRANT: Mr. Chairman, I think he is sort of exaggerating.

THE WITNESS: You don't see that in Los Angeles. You see nothing but some barges and pleasure yachts, and fishing boats moving around the harbor there.

ASSEMBLYMAN GRANT: I would like to make a comment.

CHAIRMAN ALLEN: All right, Mr. Grant.

ASSEMBLYMAN GRANT: Mr. Waters, for your information, they are not filling in the harbor to build new oil wells. They are filling in the harbor because the darn place is sinking.

THE WITNESS: Oh, well, they seem to be making millions and millions and millions for the City Treasury, Mr. Grant.

ASSEMBLYMAN GRANT: Keep in mind we are making a little

money for the State as well.

THE WITNESS: Well, God bless the State. Nonetheless, that has been the activity historically in Long Beach. The Long Beach Harbor area looks like forest of derricks in Santa Fe Springs and Signal Hill. Those people in Long Beach have been very aggressive over the years. They are getting the oil. And as a matter of fact -- well, this is not a statement of fact, certainly, on my part. But it has been rumored ever since I have been interested in this sort of thing that probably the good people of Long Beach, through their Long Beach Oil Development Company, have been draining the oil from the Los Angeles Harbor area. I understand they can slant drill from Long Beach right into Los Angeles Harbor. Maybe that is what they are doing. I don't know.

But Los Angeles isn't getting any benefit out of this. And Los Angeles could certainly use the revenue.

Q BY CHAIRMAN ALLEN: Mr. Waters, I think you mentioned that you were at one time on the Harbor Commission?

A That is correct.

Q When was that?

A Oh, that was about mid '53, I would say, Mr. Allen.

Q And the Police Commission?

A Yes, thereafter.

Q Are you on any City Board or Commission at the present time?

A No, I am not. No, I haven't been on one since, oh, I would guess some time in '54.

Q Have you ever acted in an attorney-client relationship with Mr. Dietrich?

A I would say yes.

Q Was that through your representation of any of the Hughes Companies?

A That is correct.

Q And the same thing for Mr. Hyland; L. D. Hyland?

A Only in a corporate sense, Mr. Allen.

Q That is the gentleman that testified yesterday?

A Yes, that is correct.

Q You have heard the testimony, and I know you are familiar with the dates involved and the processing and filing of these applications with the Board of Harbor Commissioners, and the records we have show that on January 9, 1957, the Board of Harbor Commissioners accepted a report recommending approval of the lease on the inner harbor in which you were interested, and previously they had approved a lease for a 27 acre parcel in which you were interested. And also that you were interested in an application that was never processed for lease in the outer harbor?

A Yes.

Q Have you ever discussed any of those applications or leases with any members of the Board of Harbor

Commissioners?

A Oh, I am sure I must have, yes. I would say yes.

Q Which ones?

A Well, I assume, sir, that I talked probably to Lloyd Menveg. Yes, who was on the Commission.

Q Mr. Hyland?

A I probably mentioned it to Mr. Hyland.

Q Mr. Tanner?

A No, I don't think I ever talked to Mr. Tanner. I may have, but I wouldn't want to be bound by it.

Q Mr. Spiers?

A Don Spiers? I may have, but I wouldn't swear to it. I could have.

Q And when were these conversations?

A Oh, probably they could have covered a long, long period of time.

Q Would there have been more than one conversation?

A Could have, but I just don't remember, frankly.

Q How about Mr. Caughlin, who testified here today, did you discuss the --

A Oh, I am sure that I probably talked to Mr. Caughlin.

Q Could you tell us what any of his conversations were?

A Oh, generally that we were interested, and would like to see some action. These things have been on file

for so many months that nothing ever seemed to happen to them. That the Harbor Department lease is a very stringent, severe lease in its provisions. Each, as I understand it, adequately protect the interest of the City. The offers which we made were certainly not only adequate, but they were bountiful. The Standard offer, I don't think that anyone could ever, anyone in the oil business, would ever have matched or exceeded the Standard offer.

But, pin me down to any verbatim relating of dialogue, goodness, that would be just an impossibility. I just honestly couldn't. I wouldn't even want to hazard it.

Q Now, directing your attention to the area marked on the map as beyond the breakwater --

A Yes.

Q -- a lease was, I understand, made to that property to the corporation described as Los Angeles Harbor Oil and Development Company, and you said you were attorney for that company?

A That is correct. And I want to enter, for the record now, I want the record to show that the company has waived the confidential relationship between attorney and client.

Q As far as you are concerned, is that right?

A That is correct, as far as Frank J. Waters is concerned. So shoot.

Q When did you commence being an attorney for that

company?

A Oh, I would assume probably --

Q At the time it was incorporated?

A I would say that, about. I would say so.

Q And I think the record will also show that around December 10th to 27th, 1956, there were various reports filed of approval by the City Council of that lease. During that period, or prior to then, did you discuss this lease with Mr. Timberlake?

A I would say yes.

Q Would you care to tell us what --

A Well, I would say this: I don't think I ever went exactly into the specifics of the lease, because, as you know from the record, the final lease, at least this is my recollection, was drafted in the office of the City Attorney. I think, I may be in error, but I think generally it followed the format and the provisions of the lease which the Harbor Department has had in use over the years. But the point that I made was simply this: That I was surprised and astounded that no one had ever, to my knowledge, acquired, had applied for an application to drill for oil beyond the breakwater. I think that is a record.

I don't believe there is anyone, any company or any oil operator, who had ever demonstrated any interest in seeking from the City of Los Angeles an oil lease on the tidelands beyond the breakwater.

Now, there are all sorts of modern equipment available today. These drilling barges, I think that the City ought to lease that. If there is any oil there of a sizeable quantity, it would redound to the best financial interest of the City of Los Angeles, and Lord knows they need it.

I think at that time someone was proposing an eight or ten or twenty million dollar bond issue for parks, or playgrounds. The City didn't have any kind of money like that for that sort of thing. We presented a very attractive lease. I don't recall those royalty rates. You have it there. But they appeared to me to be very high.

I think generally that was it. And I think his response pretty much was that he was surprised just like myself that no one had ever tried to get an oil lease on this area out there. That was about it.

Q Did you have more than one conversation with Mr. Timberlake about this lease?

A Oh, I may have, possibly, by the time of the hearings, Mr. Allen, or something of that sort.

Q I mean during December of 1956?

A Well, I would say yes with a qualification. I would assume so, but I just -- I just didn't keep any diary, or anything of the sort, like you do. You meet people, you talk to them, you didn't put it down in the book. You say well, I talked to Joe today at 2:00 p.m. at Coffee Dan's, or anything of that sort.

ASSEMBLYMAN HANNA: On that point, may I ask a question? When you had your first discussion relative to the area beyond the breakwater, was it clear at that time within whose jurisdiction that particular area was?

THE WITNESS: Well, it was clear to me, and to my office, because we had researched that very point. As a matter of fact, when we first became interested in this overall picture in the harbor I just assumed that the Board of Harbor Commissioners had jurisdiction of everything; everything that was under the water, that was within the sole jurisdiction of the Board of Harbor Commissioners.

So we checked it out and found to our surprise that the City Council was the one that had the jurisdiction beyond the breakwater.

ASSEMBLYMAN HANNA: Was that the understanding that the City Council had at that time?

THE WITNESS: Well, I am sure the City Attorney must have advised them, or they never would have proceeded.

Q BY CHAIRMAN ALLEN: Mr. Waters, we had some testimony today from a representative of Union Oil Company that a group know as C.U.S.S. had some correspondence with the City Council regarding a lease on the same property on the breakwater. When did you first learn that the C.U.S.S. group was interested in that?

A I can't even give you an answer on that, Mr. Allen.

Q Was it before the City Council approved the lease

to LAHARBCCO?

A Well, it could have been. I wouldn't want to be pinned down on that.

Q How about the application of General Petroleum for the same property?

A I would say the same answer.

CHAIRMAN ALLEN: All right. Any other questions?

THE WITNESS: I wasn't worried about that.

CHAIRMAN ALLEN: Mr. Miller.

T-9

EXAMINATION

BY ASSEMBLYMAN MILLER:

Q Mr. Waters, how long a period of time were you on the Harbor Commission?

A Well, now, I would guess just a couple of months, Mr. Miller. Maybe three months, but it was --

Q Very short?

A I was on and off in '53.

Q Very short period of time?

A Yes.

Q During the time you were on the Harbor Commission did there arise in any meeting of the Commission, or in the conversations with the staff of the Commission, any problem concerning the possibility of leasing any of the harbor lands for oil development?

A I don't think we ever had any formal conversation or discussion about that sort of thing. It might have --

it certainly must have come up, certainly in casual conversation. But I think everyone had been pretty much interested in the oil picture down there. I mean, my golly Moses, you look at Long Beach and it shocks you to see it.

Q Well, that is the reason I asked you the question, Mr. Waters, because it seems for some reason or other starting around, oh, 1955, there seemed to be considerable more interest in the oil companies who were having the possibility of developing this thing, a continued interest starting then, to probably lease these lands. And I just wondered what had actually stopped the Harbor Commission, or anyone, from being active in this possibility prior to this time, say, 1953, when you were on the Commission?

A Well, I don't know. I have had occasion to talk to various oil people with or without knowledge, I guess. But the way I understand this, believe me, I am no oil expert. That is for sure. But, nonetheless, the way they described L.A. to me, particularly that inner harbor area, is that, and you are acquainted with that, certainly, that you begin to enter that Palos Verdes Hills, the Rolling Hills there, and that is supposed to be where the oil is pinched off. And I suppose, well, I mean it is obvious that is the reason they hit these three dry holes up there in the last few months.

Q Do you recall having participated in any

negotiations or leasing activity, oil leasing, when you were actually on the Commission, where you gained any experience with respect to negotiation?

A Oh, not particularly. I don't think they were too active then, frankly, because these wells, as I recall, I don't know what the total number was then. It is a hundred and sixty two now, but it was certainly something less then than today's figure, and they also say, oh, well, these are not stripper wells, but very, very low producers; 20, 30, maybe 40 barrels a day. And the City is getting this terrific royalty starting with 30 per cent gross overriding royalty. Everybody seemed to be pretty happy with that.

Q You advised us that in '55 or '56 you began to wonder why the City didn't begin to gain some income and lease this thing. Was there any information to obtain when you were actually on the Commission by way of reports, geological surveys, or otherwise, that might have been the basis of stimulating your interest in developing this?

A No. This Geis report, you are probably referring to that. I think that that was order prior to my membership on the Commission, or after. I don't think I had anything to do with the Geis report.

But I did receive a copy of the Geis report, I think may be in '55, when I became interested in it. And then you remember Mr. Arditto's testimony yesterday when he was

talking about Carlisle Linton, and then this Mr. Dave Thayer, who is Noah Dietrich's oil man. Dave Thayer has been in the oil business for many years. He is now in Texas and Louisiana, that Gulf area, and it is my recollection it may have been in '55 he took that Geis report and went around and he represented to us that he knew every major and minor oil producer in the Los Angeles Basin. And he took the Geis report around to any number of them. I don't recall the names now. But I am certain that he did, and they said they didn't want any part of the Los Angeles Harbor. And that was it.

CHAIRMAN ALLEN: Who was this?

THE WITNESS: This is Mr. David Thayer, representing, saying that he interviewed many of these oil companies doing business in the Los Angeles Basin area. And they reported to him that they didn't want any part of Los Angeles Basin. No oil there, too risky, whatever it was. They had their reasons. So the Geis report didn't seem to be the best seller of the day.

Q BY ASSEMBLYMAN MILLER: Are any of the same members that were on the Commission at the time you served on it, or were on the Commission, that were on the Commission in 1956, '57?

A '56? Well, I think Lloyd Menveg was.

Q He was on when you were on the Commission?

A Well, he came on just about the time I left. I

believe there was a little overlap of service there. Let's see. Charlie Tanner wasn't on. Mr. Heidelberg, but he resigned. Kingdom wasn't on. I don't think Doctor Spiers was on. I don't remember. There are five members.

Q Mr. Hyland, when he was appointed to the Commission, wasn't your immediate successor, was he?

A Oh, no. No.

Q You became acquainted with Mr. Hyland, did you, as a result of your representation of the Hughes Aircraft Company?

A That is correct.

Q Through that source?

A That is correct.

Q Were you acquainted personally with Mr. Hyland at the time you served on the Harbor Commission?

A That I served, or he served?

Q No, you served.

A Oh, no.

Q You didn't know him at that time?

A No. He wasn't a resident of California at that time, I don't believe.

Q Did you make a recommendation or have any part to play in Mr. Hyland's appointment to the Harbor Commission?

A No, no. None whatsoever. I want to tell you about it.

May I interrupt just a moment?

Q Yes, certainly. Go ahead.

A Let me tell you about Mr. Lawrence Hyland. He is not only one of the top industrial executives of America, a man that commands a tremendously high salary, but he is also one of the more brilliant scientists of this Country.

As a matter of fact, he just testified last week before Senator Johnson's Committee in Washington regarding this overall missile picture. He is eminently identified with this Defense Missile picture. He was one of the few men that actively was responsible for the invention of radar.

He is a man of brilliant scientific accomplishments. He is on this Doctor Killion Ballistic Missiles Committee, and was the Assistant Secretary of Defense in charge of Research and Development Committee of Guided Missiles. He is a man that we are just very, very fortunate to have, both as a citizen of California and the United States, and as a working member of the Harbor Commission.

Q You were in the hearing the other day when he admitted he had learned some additional things since he had been on the Harbor Commission with regard to lease procedures?

A That is for sure. That is for sure.

Q Now, Mr. Linton, what is his capacity with the Hughes Aircraft, do you know?

A Oh, none. None. I will give you Mr. Linton's background.

Q Is he formerly with the State --

A Former Executive Officer of the State Lands Commission years ago. And following his service there he went into this oil leasing business, I think in the mid-continent area, as they described it, Texas, and other places. And he has been out here in California. And I have known Mr. Linton, oh, I guess for 20 years or more. He was formerly President -- he lived out here in Bel Air, and he was in the California Republican politics, and former President of the Republican Assembly. That as a long time ago, when I was a member of that when that outfit started. That is how I got acquainted with him.

So he has just got off of that over the years.

Q What is his capacity or connection, if any, with the Hughes Aircraft?

A None.

Q None whatsoever?

A Oh, no, none whatsoever.

Q What part did he actually play? His name through these hearings has been mentioned in frequent intervals in connection with these leases. And I have never got clear in my mind what part he actually played.

A Well, simply this: Mr. Linton, I think it was Mr. Scott, or someone, who used the word lease hound. I guess you described it as a lease hound. And over the years he has come in to see Mr. Arditto and myself and would say

boys, here is a real hot oil deal, and get into it. It is a cinch, and what have you. He is very enthusiastic and exuberant. Oil leasing gentlemen always seem to abound in tremendous glowing golden words about the beautiful potential about any kind of an oil lease they might happen to have at the moment.

So I think Mr. Arditto and I have bit on a couple of them, and I am sad to relate, we never got anything out of it.

But, nonetheless, he comes periodically into California here, and I guess he and I and probably Mr. Arditto started talking about this outer harbor area, and what have you.

Q At least he stimulated your interest as a lease hound in its potentiality?

A No doubt about it.

Q It has probably been asked at least to your satisfaction many, many times here at this hearing, and also to you. But I am interested in getting your evaluation, Mr. Waters, as to whether you think that the working interest that you received in these leases after they were combined was actually a compensation for legal services rendered the group, or was it because principally and primarily of your having superior knowledge of the potentialities of this thing, and the reason that you had activated it, and been active in it that was the reason,

or the consideration for the interest that you received in it, or legal services? Which would you feel it would be?

A Well, I think it is an admixture, Mr. Miller. I think that I pretty much found this oil possibility down there. I don't know of anyone else that was interested, frankly. And the one individual that I knew that was interested and intimately identified with the oil business was Noah Dietrich. And certainly he didn't know anything about Los Angeles Harbor. His oil interests were in other parts of the world, and very substantial.

But he says, well, I mean, like anybody would, well, let's go after it. Let's look into it. He says, well, there is my friend Ed Pauley. It was just that simple. And he called up Ed. I don't know if it was a case of first impression with Mr. Ed Pauley or not, but as far as I knew he had never filed on it.

And so we just got together on it, and you can say that whatever interest we got was -- we got it because it was identified as a finder's fee, or take 99 per cent of it as a finder's fee and one per cent for legal services. Or you can juggle it around any way you like.

But the fellow that comes in with the oil possibility, whatever it may be, is certainly entitled to something.

Now, however he works it out, whether you identify it as a carried working interest, or a carried interest, or overriding royalty, or what have you, I mean that is just a

part of the understanding. You mutually agree upon it and arrive at that determination.

Q The testimony that we had yesterday indicated the record to be that you and your associates were the first ones actually to file an application, and I think it was with respect to the Inner Harbor, lands under the jurisdiction of the Harbor Commission. Then subsequently to that Standard Oil filed its application, subsequent to your first having filed the application.

However, it developed from the testimony from the representatives of Standard today that they had been extremely active and interested in this possibility commencing way back the first of 1955, or earlier. But evidently they hadn't in any way filed a formal application or request of any kind. I know there is no particular priority of rights that would be in priority of filing or showing interest on the thing, but it has been somewhat a little bit hard for me to comprehend as to why Standard, with all its resources and its personnel and staff and geophysical data, and information that undoubtedly they had more of than you had, would be willing after they had filed, and in this position, in any way to so-call cut you in because they had as much information about it as your group.

Have you any explanation for that?

A Well, Mr. Miller, they had probably a lot more

information. As Mr. Scott testified, many, many months, when they first became interested, they went into their seismic work, and their geological studies, and their evaluation of all that sort of thing. And then as I understand the Standard of California operation, and incidentally I do own a few shares of stock of Standard of California and I do get their annual report, and I want you to know it is a tremendous organization and thank God it is very solvent. They are making lots of money. And they pay a pretty fair dividend.

But their operations are world-wide. As I understand their operation, the Southern California field office goes up to the head office in San Francisco. And then it ends up, however, it goes through, but it ends up with the Board of Directors and, as I understand it from the Standard people, they have never been particularly active in Southern California so I think the only member of the Board of Directors of Standard of California that is from Southern California is Mr. Asa Call. And he is, you know, a lawyer and a tremendously prominent citizen in the community, and a very, very well known corporate official.

But I was very delighted that he mentioned my name. Well, I have known Frank Waters for 30 years or so, bring him in on this. Be a nice legal representation, and fine. So I was very delighted.

And incidentally, I never got a fee out of Standard of

California. That is the sad part about it all.

Q Well, I, as an attorney, Mr. Waters, the same profession as you, learned a lot as a result of this hearing, and I feel that I should be progressive enough to discover the potential lease lands probably to develop myself as a lease hound. That is all the questions I have.

EXAMINATION

BY CHAIRMAN ALLEN:

Q Mr. Waters, directing your attention to that area beyond the breakwater and the lease obtained by the Los Angeles Harbor Development Company, has that corporation sold any interest in that to anybody else?

A Any what?

Q Any interest in that lease to anybody else?

A Oh, no, no. All it has got is a lease that is up before the Superior Court for determination at this time. I mean, they haven't got anything, really, when you look at it.

Q Any drilling or contract arrangement?

A Oh, no. Nothing. I mean, there was no point in doing anything. Certainly it is very obvious, because the lease has been challenged by this taxpayers' suit, and until the Court comes to a determination, why, there is just nothing to talk about.

Q The answer is no, there is no such arrangement?

A Yes, that is correct.

Q Has there been any correspondence with any other oil company towards that end?

A Not to my knowledge. I don't think so.

Q Have you and Mr. Arditto obtained any oil leases anywhere outside of the Harbor area; outside of the City of Los Angeles?

A No, no, no. We went into one in Nebraska --

Q I thought you mentioned one.

A -- two or three years ago on one of these fliers and took an awful drubbing. Nothing happened. Just a good big fat loss, and that was it.

Q Did you actually get a lease there?

A Oh, yes, we had a lease there but it sure was sour.

Q How did Kadane and Sons happen to come into this picture?

A Well, they came into the office. I don't know how they came into the office. You know how clients walk into your office, and thank God they do. But I never heard of them before. I mean, I didn't know the Kadaness from a sack of salt. But, as Mr. Scott testified, they are very fine, substantial oil operators. Been doing business in the oil game for many years past, and they graced our office with their presence and I trust a beautiful friendship resulted.

CHAIRMAN ALLEN: Any other questions? Anything else

you would like to add, Mr. Waters?

THE WITNESS: No, I think that's it, Mr. Allen.

CHAIRMAN ALLEN: Mr. Sumner.

EXAMINATION

BY ASSEMBLYMAN SUMNER:

Q When did Kadane and Sons first retain your office for anything?

A Well, I don't want to date that. I think Mr. Arditto testified on that earlier. I just couldn't date it, though, frankly.

MR. ARDITTO: They never retained us.

THE WITNESS: Well, they came into the office, any way, whatever it was.

MR. ARDITTO: About February or March, along in there, of 1956. But we were never retained.

Q BY ASSEMBLYMAN SUMNER: Your office has never been retained by Kadane and Sons?

A You will have to ask Mr. Arditto.

MR. ARDITTO: Maybe I should come up there.

THE WITNESS: Maybe you should.

MR. ARDITTO: Do you want me up there?

THE WITNESS: He dealt with them primarily. I didn't.

MR. ARDITTO: What was your question?

Q BY ASSEMBLYMAN SUMNER: Did you ever do any other work for Kadane and Sons in regard to this particular lease?

MR. ARDITTO: We have never done any work of any type for the Kadaness. Whatever work we did we did as a mutual venture.

ASSEMBLYMAN SUMNER: All right. Did you ever do any work with them?

MR. ARDITTO: That is correct, we have not.

ASSEMBLYMAN SUMNER: I see. All right.

CHAIRMAN ALLEN: All right, thank you very much, Mr. Waters.

THE WITNESS: Can I be excused? I have to go to New York.

CHAIRMAN ALLEN: Sure, take off.

Is Mr. Nordstrom present?

ARTHUR W. NORDSTROM

called as a witness by the Committee, being first duly sworn by the Committee Chairman, was examined and testified as follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q Your name, sir?

A Arthur W. Nordstrom.

Q And your occupation?

A Assistant City Ctorney, City of Los Angeles.

Q And you are an attorney at law, duly admitted and licensed to practice in the State of California?

A Yes, I am.

Q Were you present yesterday?

A Yes, I was.

Q All day?

A I think so, yes.

Q Being on the staff of the Deputy City Attorney, have you acted as attorney for the Los Angeles Harbor Commission?

A I have been assigned as Assistant City Attorney to that function, yes.

Q Directing your attention to the date of January 9, 1957, do you remember a meeting of the Harbor Commission about that time?

A Yes. They met in the afternoon on that date.

Q Were you present?

A Yes.

Q And at that time the Harbor Commission received a report recommending approval of a lease on the Inner Harbor Area?

A No.

Q Do you want to explain that?

A Yes. They received a report of the Land and Leasehold Committee and the General Manager which recommended

two things: First, that the proposal made by Standard Oil Company of California, and the other names on that proposal, is more acceptable to the Board and that it was recommended that the City Attorney be instructed to prepare an order granting a proposed lease to Standard Oil et al.

Q All right. And around that time I understand Mr. Tanner was disqualified?

A Not at that time. I might explain the sequence of events on Mr. Tanner, if you desire.

Q All right, go ahead, please.

A When the Standard Oil proposition was made, or proposal was made, back in July of '56, some time along in there, I received a letter from Mr. Tanner stating that the Standard Oil Company owned some 3,000 shares of the Tanner Motor Livery stock. I have forgotten the exact name of his company. And that his company bought a large proportion of their petroleum products from Standard Oil.

Nothing was done with that letter because there was nothing presented before the Board for action.

On January 2nd, I think, '57, certain proposals were presented to the Board in response to this form letter that the General Manager sent out, and again the Standard Oil Company, together with the other parties on that proposal, their proposal was filed. On January 4th I sent a letter to Mr. Tanner stating that there was apparently going to be a matter presented to the Board with reference to

Standard Oil and asking him for further information as to the exact status of his company, or his companies, and the Standard Oil Company.

On January 7th he wrote me a letter, or the City Attorney a letter, to my attention, stating more fully the facts. That is on the 7th.

On January 30th the City Attorney's office, over my signature, released an opinion stating that it was the opinion of the City Attorney that he did have an interest in the Standard Oil Company which would disqualify him and the Board of Harbor Commissioners from acting on any application of the Standard Oil Company.

Q And then the following the rendering of that opinion I understand the matter was sent to the Board of Referred Powers?

A No.

Q All right.

A Nothing has happened to the matter since.

Q Oh?

A It is just dormant.

Q Where did I get this story about the Board of Referred Powers?

A In the opinion it stated that this was a matter that would properly be sent to the Board of Referred Powers, but I think nothing has been done since at all. It is just dormant.

Q Did you file any written opinion on that?

A No. No.

Q No written correspondence between you and Mr. Hyland?

A No. No.

CHAIRMAN ALLEN: All right. Any other questions?

THE WITNESS: My I make this further statement?

CHAIRMAN ALLEN: Go ahead.

THE WITNESS: Having disqualified Mr. Tanner to act upon this matter, the question became moot.

CHAIRMAN ALLEN: Right.

ASSEMBLYMAN MILLER: One very short question.

CHAIRMAN ALLEN: Mr. Miller.

EXAMINATION

BY ASSEMBLYMAN MILLER:

Q Mr. Nordstrom, in your opinion as Deputy City Attorney do you feel that the Board of Harbor Commissioners could adopt a standard procedure for their leasing operation relative to rules upon which bidding for oil leases in the Harbor area could be made without the necessity of any amendment to the Charter to accomplish this purpose?

A Oh, I think so, yes. The Board could establish any procedure for receiving bids that they desired. But after having received them, they would have to then comply and go through the formal procedures set forth in the City Charter for actually awarding, executing, and approving a

lease.

Q Are there any provisions in the City Charter now that would cover the actions of the Harbor Commission in respect to competitive bidding on these leases?

A No. No. As a matter of fact, the provisions in there seem to be kind of inconsistent with competitive bidding, but competitive bidding could be used as an ancillary method to it.

Q Since the time that you had been assigned to serve as Attorney for the Harbor Commission by the City Attorney, has there ever been any steps taken to formulate for the Harbor Commission at all any standard rules and regulations concerning the leasing of the lands?

A Not formal rules or regulations concerning the leasing, except such procedure as set forth in the Charter. Would you care to have me outline that procedure?

Q Yes, I think this Committee should be interested in it.

A Section 142 of the Charter of the City of Los Angeles provides, in essence, without attempting to quote it, that leases are to be granted upon applications. And that the Board of Harbor Commissioners are to fix the fees to be paid by such applicants, and those fees have been fixed some time in the past.

For ordinary leases such as we are talking about now, the fee is \$50.00 per application. Section 142 also

provides that the Board of Harbor Commissioners cannot act upon any application until the expiration of seven days following the date of filing that application with them. That is a breathing spell in there to consider.

After that Section 142 provides the rest of the procedure for actually entering into leases, and how they are to be approved and where they are to go for adoption and approval and publication. And that procedure is eventually this:

The Board of Harbor Commissioners may act in one of two ways: By resolution, or order. An order is very similar to an ordinance. It provides that leases are to be granted by order of the Board, and that leases for a term of over five years are to be submitted to the City Council for approval or disapproval. The Council is required to act within 30 days after such submission. If the Council approves or does not within the 30 days approve, the proposed order granting the lease --

Q That covers it pretty well, Mr. Nordstrom. I know the Committee kind of wants to get away, and that covers it pretty well. And I find we have in our records here the Charter of the City and these Sections marked out.

I want to get to the final conclusion on this thing. If it was the will of the Harbor Commission to adopt rules or regulations or orders requiring competitive bidding,

either on a cash bonus biddable factor, or on a royalty biddable factor, it would be within their present powers to adopt said rules and regulations or orders?

A Yes, they could do that, providing that when they come to award, after the bids were in, and when they came to award the lease they then following the remainder of this procedure.

Q I see. Now, is there at the present time pending before the Harbor Commission any suggestions or proposals for such rules of competitive bidding of which you are familiar?

A No, not as such. The Mayor's office, back in January -- no, in February, '57, requested that the Harbor Department, as I remember it, it came in on February 13th, I believe --

Q Certain policy? We have the Mayor's statement before us.

A Yes, that the Board hold up any more oil leases until some policy is generally formulated in the City, as I remember it.

Q Now, there is no policy, then, as a result of the Mayor's recommendation? No action has been taken by the Harbor Commission?

A No.

Q And that has been approximately a year since the Mayor's report came in?

A Yes, approximately.

ASSEMBLYMAN MILLER: That is all.

CHAIRMAN ALLEN: All right.

THE WITNESS: May I say --

CHAIRMAN ALLEN: Yes.

THE WITNESS: There has been some apparent confusion, I believe. I gather from the questions that some of the members of the Committee, Mr. Allen, have asked with reference to the status of certain leases or non-leases that the Harbor Department, with reference to the outer Harbor, the Inner Harbor, and the Kadane lease are concerned. Could I make a short statement with reference to that?

CHAIRMAN ALLEN: Go right ahead.

THE WITNESS: I would like to clear the record a little bit as far as the City Attorney's records show. I would like to take the Kadane lease first, which is to the east of what is marked as the Inner Harbor on the map.

CHAIRMAN ALLEN: Before you go ahead, Mr. Nordstrom, I would like to make an announcement. We have lost a quorum because several members of the Committee had to leave. We have some other witnesses that we had subpoenaed and we will not be able to hear them tonight, so they will be excused if they wish to leave at this time. When Mr. Nordstrom finishes we will give anyone in the audience who wishes to speak an opportunity to appear before we adjourn.

Go ahead.

THE WITNESS: I will try to take very little time. The application by G. E. Kadane and Sons alone, and by themselves, was filed as your records show April 25th, 1956. The application was presented to the Board of Harbor Commissioners on May 16th, 1956; referred to the Land and Leasehold Committee and the General Manager for recommendation.

On August 3rd, 1956, the General Manager transmitted his file containing the application, and any other documents that were in it, to Mr. Perkins, who is a Deputy City Attorney, also assigned to the Harbor Department, to prepare a rough draft of a lease with the instructions that there would be provisions for the drilling of five wells and other wells as may be agreed upon by the parties, and certain other provisions that we usually put in oil leases in the harbor as we draft them.

On August 8 the maps to attach to these leases showing the exact areas were received from the Harbor Engineer's office.

On August 9th, 1956, Mr. Perkins transmitted a draft in yellow to the General Manager of a lease to G. E. Kadane and Sons alone.

On August 30th, there having been apparently, the General Manager having gone over this rough draft, on August 30th Mr. Perkins transmitted to the General Manager

a smooth draft; that is, on white paper ready to sign if it was okeh.

On September 4th, 1956, as I recall the files, G. E. Kadane and Sons sent the letter to the General Manager advising that they were modifying their application so as to add the names of Arditto and Waters to it.

On September 5th the General Manager asked me to make the necessary changes in the final draft, or the final lease that had already been prepared, to add the two names of Arditto and Waters, and I had my stenographer retype the first page, which was the granting clause, and the last page, which was the execution clause, and substituted those two pages. And from then on --

CHAIRMAN ALLEN: That is that five and twenty seven acre parcel?

THE WITNESS: Yes, that is the five and the twenty seven.

So that lease was in active preparation from August 3rd until August 30th, and then had to be redone to add those two names on September 5th.

Now, with reference to the applications for leases in the Inner Harbor, there seems to be in the minds of some from time to time, based upon their questions here of other witnesses, confusion as to whether a lease has ever been granted upon that area by the Board of Harbor Commissioners.

Subsequent to the action of the Board of Harbor

Commissioners on January 9th, 1957, in which they stated that the Standard Oil and et al proposition, or proposal, was the most acceptable to them, the file was transmitted to the City Attorney to work on a proposed lease.

I, being the one to receive the file, did nothing until after I had rendered the opinion as to Mr. Tanner on January 30th.

At that time the Examiner articles were being published, or had been published, and I knew that the Mayor had requested or was about to request, I have forgotten the exact dates, a citizens' board to examine into lease policy and an appropriation from the Council to hire a board of three experts to examine the possibility of subsidence.

So I actually did nothing in the way of preparing that lease, and on February 13th the Board of Harbor Commissioners rescinded their instructions to the City Attorney to prepare a draft of such lease.

So actually the City Attorney did nothing on that matter in the Inner Harbor, and there has been nothing done by either the Board of Harbor Commissioners, City Council, or City Attorney, or anybody else since.

CHAIRMAN ALLEN: All right. Any questions? Thank you, Mr. Nordstrom.

Does anyone in the audience wish to make a statement?

ASSEMBLYMAN MILLER: There is a gentleman with his

hand up.

CHAIRMAN ALLEN: Do you want to come forward, sir?
We will be glad to hear from you.

TAD TRAVERS

called as a witness by the
Committee, being first duly
sworn by the Committee Chairman
was examined and testified as
follows:

EXAMINATION

BY CHAIRMAN ALLEN:

Q May we have your name and address?

A Tad Travers, Brookline Oil Company, 210 West 7th
Street, Los Angeles.

Q That is T-r-a-v-e-r-s?

A Yes, sir.

Q Brookline?

A Brookline Oil Company, yes, sir.

Q All right. Go right ahead.

A Mr. Chairman, I would like to make a few
observations, rather than any testimony here, in that I am
appearing as a volunteer.

As a prelude to my remarks I would like the Committee
to know that I am not personally acquainted, outside of a
business matter, with either of the Commissioners of the
Los Angeles Board of Harbor Commissioners, or Mr. Caughlin,

but I do know those gentlemen by reason of being a lessee. But, any connections that we may have there is strictly on a business basis throughout the years. I just offer that as a source of information.

The Brookline Oil Company is operating in the Harbor area and has been doing so for some 22 years under a lease and a permit issued by the Los Angeles Board of Harbor Commissioners.

During the time in which the several operators had made overtures or proposals to lease the lands and property now before this Committee there had been quite a bit of publicity given to that fact, and by reason of the lands that we hold under our permit and that are producing being contiguous to the subject area, I have at least a certain measure of curiosity.

I sought to inform myself of the conditions that would be applicable to consideration of the lease.

I had on several occasions called to and talked with Mr. Caughlin as the General Manager of the Harbor Department with respect to those conditions. Mr. Caughlin informed me of the facts that were pertinent and when he also informed me that in his opinion he didn't think the Board would consider anything less than a minimum of 30 per cent royalty, up to fifty per cent, plus a fact of a very substantial cash bonus.

Well, of course, I opined on that that that was strictly

out of our way of thinking, and that any operator considering such a proposition on wildcat lands, as we considered them to be, certainly must be imbued with unbridled optimism.

However, for that reason, because of the conditions of any propositions which may be entertained, I told him that we were not interested.

However, he did pose the query that if we were, why, our application could be submitted and that any information relative thereto, of course, would be made known to us.

I would like to explain to this Committee that by reason of the publicity that has been given here, which at least has some aura of a suspicion and distrust as respects the negotiations leading up to these leases, in my own personal contact with this Harbor Department I have never found any such conditions to obtain.

As a matter of fact, quite the contrary.

And I have never found anyone in the Harbor Department, and more particularly Mr. Caughlin, by reason of my explaining to you that it was he to whom my query was directed, never at any time was he ever vague or indefinite, or made any effort to make any mystery out of any of these conditions. It was the exact opposite that existed.

So for that reason I am giving to you this strictly as an opinion for whatever merits you may attach to it, that as far as we were concerned, in our analysis, our

investigation when this matter was pending, that all information was available to anyone who sought it, and it was general and public information among the operators in the area of the conditions that existed, and never at any time was there any effort to withhold any information or complicate any of those proceedings in any manner.

Now, with your leave, I would now like to make an observation as a citizen and a taxpayer, which is just strictly an opinion, if I may. And with that permission granted, I would like to say, and again say, this is just one individual's opinion.

I believe that by acclamation the citizens of this community should give that Department, the Harbor Department, a rising vote of thanks in their success of their abortive attempt to close a deal out of which the City of Los Angeles would receive some \$200,000.00 as a bonus, plus a sliding scale up to 50 per cent royalty. I think that is a job that is well done. If other departments in the City Government could do equally as well, I think the taxpayers would have considered themselves quite fortunate.

Thank you very much, gentlemen.

ASSEMBLYMAN MILLER: Mr. Chairman?

CHAIRMAN ALLEN: Mr. Miller.

EXAMINATION

BY ASSEMBLYMAN MILLER:

Q Who do you sell the majority of your oil to out

of your production?

A Would you give me that again, please?

Q Who do you sell the greater portion of your oil out of your production to from these fields?

A To General Petroleum, are one of the buyers. And the other buyer to whom we sell is the Edgington Refinery.

Q Anybody else?

A No, sir, not in that area.

ASSEMBLYMAN MILLER: That's all.

CHAIRMAN ALLEN: Would you point out on that map where your lease is located?

A Yes. The area which we have under lease is in this section right here along Cerritos Channel, and west of the Long Beach City line. We at one time had under lease this entire area, which we quitclaimed, but this is the area here to which I make reference.

CHAIRMAN ALLEN: All right. Thank you, Mr. Travers.

Is there anybody else who wishes to speak to the Committee?

MR. CAUGHLIN: Mr. Allen, I would like to leave, to file a letter that was presented to the Board of Harbor Commissioners, and it is certified to by the Board. I would like to file that with the Committee.

CHAIRMAN ALLEN: All right. We will mark that as an exhibit.

Is there anybody else who wants to speak?

That letter just referred to is dated February 8, 1957, on the stationery of Mr. Phil Silver.

If not, the Committee will stand adjourned.

Certain defects were observed in this volume when it was received by University Microfilms, Inc. Since we were unable to locate a perfect copy, this volume was filmed as received.

University Microfilms, Inc., Ann Arbor, Mich.